

GAO

Annual Report to the Chairman, House
and Senate Committees on
Appropriations

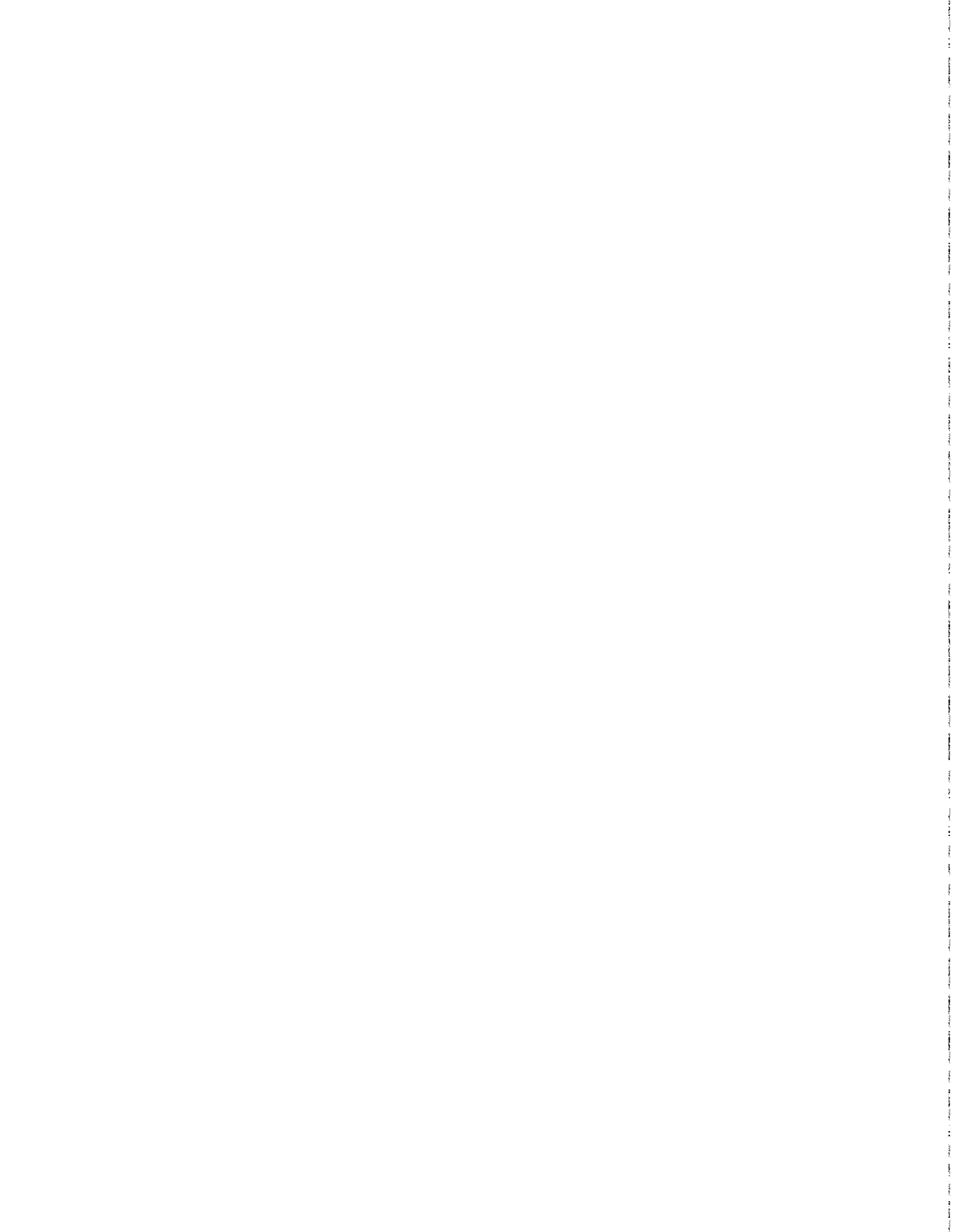
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January 1994

STATUS OF OPEN
RECOMMENDATIONS

Improving Operations
of Federal
Departments and
Agencies







United States
General Accounting Office
Washington, D.C. 20548

Comptroller General
of the United States

B-205879

January 14, 1994

The Honorable William H. Natcher
Chairman, Committee on Appropriations
House of Representatives

The Honorable Robert C. Byrd
Chairman, Committee on Appropriations
United States Senate

This is our annual report on the status of open recommendations resulting from the General Accounting Office's (GAO) audits, evaluations, and other review work in federal departments and agencies. To encourage prompt, responsive actions on our recommendations, we systematically followup on them and annually report on their status.

We are sending copies of this report to the Office of Management and Budget and federal departments and agencies so that they may respond to inquiries about these issues during appropriations and oversight hearings. We are also sending copies to Chairs and Ranking Minority Members of all House and Senate committees and subcommittees to better inform them of GAO's open recommendations.

A handwritten signature in cursive script that reads "Charles A. Bowsher".

Charles A. Bowsher
Comptroller General
of the United States

Preface

In fiscal year 1993, GAO made over 1,600 recommendations. This report includes summaries highlighting the impact of GAO's work and information on the status of all GAO recommendations that have not been fully implemented. This information should help congressional and agency leaders prepare for upcoming appropriations and oversight activities and stimulate further actions to achieve the desired improvements in government operations.

Several changes have been made to this year's report. The printed volume summarizes the impact of GAO's work and highlights the key open recommendations. This volume also includes a set of computer diskettes with details on all open recommendations.

The diskettes have several menu options to help users find information easily. For example, a user may search for an open recommendation by using product numbers, titles, dates, names of federal entities, congressional committees, or any other word or phrase that may appear in the report. Instructions for operating the electronic edition are at the end of this publication.

The name and telephone number of the GAO manager to contact for information or assistance about a product is included on the diskettes. Information or questions not related to a specific product or recommendation should be referred to GAO's Office of Congressional Relations on 202/512-4400.

Copies of complete GAO printed products may be ordered by calling 202/512-6000.

Please direct comments, questions, or suggestions for improving this report to Lawson "Rick" Gist, Assistant Director, Office of Policy, on 202/512-4478.

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Abbreviations

AFDC	Aid to Families With Dependent Children
AID	Agency for International Development
ATF	Bureau of Alcohol, Tobacco, and Firearms
BIA	Bureau of Indian Affairs
BOP	Bureau of Prison
CAA	Clean Air Act
CBO	Congressional Budget Office
CCDBG	Child Care and Development Block Grant
CFO	Chief Financial Officers
CHAMPUS	Comprehensive Health and Medical Program of the Uniform Service
CIM	corporate information management
DAFIS	Departmental Accounting and Financial Information System

Contents

DCAA	Defense Contract Audit Agency
DOD	Department of Defense
DOE	Department of Energy
DOT	Department of Transportation
EEOC	Equal Employment Opportunity Commission
EPA	Environmental Protection Agency
ERISA	Employee Retirement Income Security Act
FAA	Federal Aviation Administration
FDA	Food and Drug Administration
FDIC	Federal Deposit Insurance Corporation
FEHBP	Federal Employees Health Benefits Program
FEMA	Federal Emergency Management Agency
FHA	Federal Housing Administration
FHWA	Federal Highway Administration
FmHA	Farmers Home Administration
FPM	Federal Personnel Manual
FTA	Federal Transit Administration
FTD	federal tax deposit
FY	fiscal year
GAO	General Accounting Office
GNMA	Government National Mortgage Association
GSA	General Services Administration
HCFA	Health Care Financing Administration
HHS	Department of Health and Human Services
HUD	Department of Housing and Urban Development
IG	Inspector General
INS	Immigration and Naturalization Service
IRM	information resource management
IRS	Internal Revenue Service
ISTEA	Intermodal Surface Transportation Efficiency Act
ITC	International Trade Commission
NAEP	National Assessment of Educational Progress
NASA	National Aeronautics and Space Administration
NASD	National Association of Securities Dealers
NCIC	National Crime Information Center
NRC	Nuclear Regulatory Commission
NSF	National Science Foundation
O&M	operation and maintenance
OBRA	Omnibus Budget Reconciliation Act
OMB	Office of Management and Budget
ONDCP	Office of National Drug Control Policy

Contents

OPM	Office of Personnel Management
OSHA	Occupational Safety and Health Administration
PBGC	Pension Benefit Guaranty Corporation
RSA	Rehabilitation Services Administration
RTC	Resolution Trust Corporation
SAIF	Savings Association Insurance Fund
SBA	Small Business Administration
SEC	Securities and Exchange Commission
SGLI	Servicemen's Group Life Insurance Program
SIPC	Securities Investor Protection Corporation
SSA	Social Security Administration
TCMP	Taxpayer Compliance Measurement Program
USDA	U.S. Department of Agriculture
VA	Department of Veterans Affairs
VOA	Voice of America

Improving National Security and International Affairs Programs

Acquisition, Policy, Technology, and Competitiveness Issue Area (Budget Function 050)

GAO Contact: David E. Cooper, 202/512-4587

Impact of GAO's Work

Given the ongoing reductions in U.S. defense funding, a new relationship is evolving between the government and the defense industry. Our work focused on the major issues related to this changing relationship. We addressed questions such as the following: (1) Is the defense industrial base being restructured to best serve U.S. security interests? (2) Is defense technology being effectively maintained and protected? (3) Is the Department of Defense (DOD) reforming its acquisition process to address long-standing problems? (4) Do DOD contracting policies and practices ensure that public funds are spent properly?

Increased emphasis is being placed on ensuring that as defense downsizing takes place, there is an orderly, efficient, and effective restructuring of the defense industrial base. We are examining key industrial base activities, as well as the effectiveness of plans to spend \$20 billion over the next 5 years, on defense conversion. We are also examining DOD policies and practices to ensure that as efforts to enhance U.S. competitiveness are promoted, critical defense technologies are adequately protected.

DOD and the Congress continue to pursue proposals to reform the defense acquisition system. We increased our efforts to evaluate these proposals to ensure that they achieve the benefits intended at reasonable costs. We also continued our review of DOD contracting practices to ensure that they adequately protect the taxpayer against fraud, waste, and abuse.

Our reports and testimonies highlighted areas where DOD and defense contractor controls were not adequate to protect against improper use of government funds. For example, our work reviewing contractor overhead charges found examples of defense contractors' charging the taxpayers for costs that were not allowable under federal regulations. Our audit work related to contract overpricing also found that a small percentage of defense contractors were responsible for most contract overpricing.

In addition, we made several recommendations that, if effectively implemented, could save the taxpayers millions of dollars. For example, in our report on DOD operational test and evaluation, we pointed out that substantial savings were available by consolidating existing testing facilities, and we recommended actions to achieve this objective.

Key Open Recommendations

The Federal Acquisition Regulation cost principles require defense contractors to identify and exclude unallowable costs from their overhead submissions. At all six contractors we reviewed, contractors did not exclude all unallowable costs. For example, in addition to identifying almost \$1 million in costs questioned by the Defense Contract Audit Agency (DCAA) at these six contractors, we identified about \$2 million more in overhead costs that were either expressly unallowable or questionable.

We concluded that the federal cost principles governing allowability for entertainment, employee morale and welfare, and business meetings costs lacked sufficient clarity to ensure consistent and appropriate application. We also concluded that limited transaction testing by DCAA may have also contributed to the nearly \$2 million undetected unallowable or questionable costs.

We recommended that, to address these problems, DOD clarify the Federal Acquisition Regulation in some cases and, in other cases, evaluate the cost principles to determine whether additional guidance was needed. We further recommended that DCAA evaluate the extent to which its field offices needed to spend more time in transaction testing. (GAO/NSIAD-93-79)

With the defense industry downsizing, defense companies can make significant cost reductions by incorporating modern technologies and innovative management techniques. Of the 24 defense companies we surveyed, 3 had instituted more-efficient techniques and practices. Savings to DOD from such cost reductions can be significant. One of the defense companies reported reducing work-in-process costs by \$80 million and passing the savings on to the government.

Competitive market forces may not be sufficient to motivate many defense companies to significantly lower costs, however. Significant progress in this area will require DOD efforts to stimulate contractor actions. We recommended that DOD, as part of its efforts to reform the defense acquisition system, identify and eliminate the factors that result in defense

contractors not incorporating technologies and management techniques to reduce costs. (GAO/NSIAD-93-125)

**Related Products With
Open Recommendations:
Acquisition, Policy,
Technology, and
Competitiveness**

Product Title

Acquisition Management: Implementation of the Defense Acquisition Workforce Improvement Act (GAO/NSIAD-93-129)

Acquisition Reform: Contractors Can Use Technologies and Management Techniques to Reduce Costs (GAO/NSIAD-93-125)

Air Force Procurement: Current Plans May Provide More Ground-Attack Capability Than Needed (GAO/NSIAD-92-137)

AV-8B Program: Aircraft Sales to Foreign Government to Fund Radar Procurement (GAO/NSIAD-93-24)

Contract Pricing: DCAA's Audit Coverage Lowered by Lack of Subcontract Information (GAO/NSIAD-92-173)

Contract Pricing: Economy and Efficiency Audits Can Help Reduce Overhead Costs (GAO/NSIAD-92-16)

Contract Pricing: Unallowable Costs Charged to Defense Contracts (GAO/NSIAD-93-79)

Defense Acquisition: U.S.-German Examinations of the MLRS Terminal Guidance Warhead Program (GAO/NSIAD-92-7)

Defense Communications: Defense's Program to Improve Telecommunications Management Is at Risk (GAO/IMTEC-93-15)

Defense Contracting: Interim Report on Mentor-Protege Program for Small Disadvantaged Firms (GAO/NSIAD-92-135)

Defense Industrial Base: An Overview of an Emerging Issue
(GAO/NSIAD-93-68)

DOD Contracting: Techniques to Ensure Timely Payments to Subcontractors (GAO/NSIAD-93-136)

DOD Procurement: Cost-Per-Copy Service Can Reduce Copying Costs
(GAO/NSIAD-90-276)

Energy Management: Contract Audit Problems Create the Potential for Fraud, Waste, and Abuse (GAO/RCED-92-41)

Energy Management: Systems Contracting Weaknesses Continue
(GAO/RCED-93-143)

Federal Research: Lessons Learned From SEMATECH (GAO/RCED-92-283)

Federal Research: System for Reimbursing Universities' Indirect Costs Should Be Reevaluated (GAO/RCED-92-203)

High Performance Computing: Advanced Research Projects Agency Should Do More to Foster Program Goals (GAO/IMTEC-93-24)

International Air and Trade Shows: DOD Increased Participation, but Its Policies Are Not Well-Defined (GAO/NSIAD-93-96)

International Procurement: NATO Allies' Implementation of Reciprocal Defense Agreements (GAO/NSIAD-92-126)

Military Coproduction: U.S. Management of Programs Worldwide
(GAO/NSIAD-89-117)

Minority Contracting: DOD's Reporting Does Not Address Legislative Goal
(GAO/NSIAD-93-167)

Multiple Award Schedule Purchases: Changes Are Needed to Improve Agencies' Ordering Practices (GAO/NSIAD-92-123)

Multiple Award Schedule Purchases: Improvements Needed Regarding Publicizing Agencies' Orders (GAO/NSIAD-92-88)

NASA Aeronautics: Impact of Technology Transfer Activities Is Uncertain
(GAO/NSIAD-93-137)

Nuclear Science: Consideration of Accelerator Production of Tritium
Requires R&D (GAO/RCED-92-154)

Operation Desert Shield/Storm: Impact of Defense Cooperation Account
Funding on Future Maintenance Budgets (GAO/NSIAD-93-179)

Procurement: DOD Efforts Relating to Nondevelopmental Items
(GAO/NSIAD-89-51)

Technology Transfer: Barriers Limit Royalty Sharing's Effectiveness
(GAO/RCED-93-6)

Technology Transfer: Federal Efforts to Enhance the Competitiveness of
Small Manufacturers (GAO/RCED-92-30)

Test and Evaluation: Little Progress in Consolidating DOD Major Test
Range Capabilities (GAO/NSIAD-93-64)

Test and Evaluation: Reducing Risks to Military Aircraft From Bird
Collisions (GAO/NSIAD-89-127)

University Research: Controlling Inappropriate Access to Federally
Funded Research Results (GAO/RCED-92-104)

U.S.-Israel Arrow/Aces Program: Cost, Technical, Proliferation, and
Management Concerns (GAO/NSIAD-93-254)

Weapons Codevelopment: U.S. National Issues in the MLRS Terminal
Guidance Warhead Program (GAO/NSIAD-92-55)

Defense Management and NASA Issue Area (Budget Functions 050 and 250)

GAO Contact: Donna M. Heivilin, 202/512-8412

Impact of GAO's Work

Significant challenges face the Department of Defense (DOD) and the National Aeronautics and Space Administration (NASA) in light of the end of the Cold War, pressing domestic problems, and the spiraling budget deficit. While DOD has recognized the need to re-engineer and streamline its operations, it continues to have difficulty in implementing effective and efficient programs. DOD needs to change existing management practices, procedures, and culture to overcome long-standing problems. In addition, as DOD closes and realigns military bases as part of its efforts to downsize and restructure its forces and reduce defense spending, it will face increased spending in other areas, such as in environmental cleanup at bases being closed or designated for closure and the destruction of chemical weapons. A key to managing these emerging, potentially high-cost areas will be in defining the overall costs, alternative management and technology strategies, and proactive steps to avoid similar problems.

NASA also faces major restructuring of its programs and activities. The overcommitment of the agency's likely budget has created funding uncertainty and the need for major restructuring in some of its largest programs. Our major efforts throughout the year focused primarily on matters associated with affordability issues. We reported that, agencywide, NASA's major space missions over the last 15 years had required substantially more funding than initially estimated and emphasized NASA's need for an independent cost-estimating capability. We also continued to devote a significant amount of attention to NASA's attempts to reestablish control over its procurement activities. In this area, we reported on the agency's efforts to revise its contract for the operation of the Jet Propulsion Laboratory and on the need for NASA to change its policies, procedures, and practices in providing equipment to its contractors.

Key areas we focused on in fiscal year 1992 include reducing the defense infrastructure and excess inventory; identifying opportunities to save money and achieve management efficiencies through new processes; quantifying the unfunded liabilities facing DOD such as environmental

cleanup; and improving NASA management in the areas of program affordability and contracting.

Key Open Recommendations

DOD and NASA actions are required to implement the following key recommendations that would result in management improvements, operational efficiencies, and dollar savings.

We recommended several actions to improve the implementation of future DOD processes for selecting bases for closure and realignment, including taking advantage of cross-service opportunities that could result in a more efficient realignment of support facilities and additional cost savings. (GAO/NSIAD-93-173)

In continuing to monitor DOD's progress in reducing its inventory, we made several recommendations to avoid unnecessary purchases of supplies and industrial plant equipment. (GAO/NSIAD-93-124 and GAO/NSIAD-93-8)

We also recommended that, to improve DOD's inventory management practices, DOD use a quick response, commercial purchasing process that could maintain a constant flow of inventory without maintaining large inventories. (GAO/NSIAD-93-112)

We recommended pilot programs and projects to demonstrate the applicability of commercial practices in two areas—military industrial centers and food distribution. Such actions could improve management and reduce costs by eliminating unnecessary processes and functions. (GAO/NSIAD-93-110 and GAO/NSIAD-9-155)

To improve DOD's management of emerging high-cost issues, such as environmental cleanup, we recommended improving the operations of plants designed to destroy chemical munitions, upgrading of underground storage tanks to avoid costly cleanups, and obtaining better data on the amount of funds paid to DOD contractors for cleanup. (GAO/NSIAD-92-117, GAO/NSIAD-93-50, and GAO/NSIAD-93-77)

Our principal concern in the NASA area has been the affordability of its total program. Clearly, the agency's funding expectations were set too high and it needed to bring the content and the pace of its efforts more reasonably in line with its likely future years' budgets. In doing so, NASA has to also identify opportunities to function more efficiently and to prepare more-realistic estimates of the likely cost of projects. Our work

also helped identify such opportunities and focus NASA's attention on the need for having an independent capability for developing more-realistic project cost estimates. (GAO/NSIAD-93-73, GAO/NSIAD-93-178, and GAO/NSIAD-93-191)

Defense: Strategic Nuclear
Triad

On the basis of our series of eight classified reports on the U.S. strategic nuclear triad, we made five specific recommendations to DOD in our June 10, 1993, unclassified testimony to the Senate Governmental Affairs Committee. To date, DOD has not acted favorably or conclusively on four of those recommendations, as follows: (1) that procurement of the B-2 bomber be terminated with the completion of 15 aircraft, rather than at 20 as requested by the Air Force; (2) that additional operational testing of the B-1B bomber be done to verify essential improvements in reliability and electronic countermeasures and to remove remaining uncertainties concerning range performance; (3) that the cost-effectiveness of the Air Force's proposed life-service extension of the Minuteman III intercontinental ballistic missile be the subject of additional, rigorous review; and (4) that the Navy continue flight testing for the D-5 submarine-launched ballistic missile at an annual rate sufficient to maintain an understanding of actual missile performance at a high level of confidence. (GAO/T-PEMD-93-5)

Department of Defense:
Corporate Information
Management (CIM)

The Department of Defense has made little progress in implementing the recommendations in our September 1992 report. Defense is at a turning point regarding CIM. The new leadership of the incoming administration is reassessing the overall strategy of the CIM initiative. It is unclear what this reassessment will encompass and when it will be completed. As one of the largest information management initiatives ever undertaken, CIM has great promise—not only for Defense but for other federal agencies and the nation as well. By improving business operations with less resources, Defense can improve its war-fighting capabilities while shifting scarce resources to other national needs. Implementing CIM, however, requires a major cultural change in managing information resources that Defense is finding difficult to implement. Therefore, we believe that it is critical for the Secretary of Defense to take an active role in implementing CIM. (GAO/IMTEC-92 77)

**Related Products With
Open Recommendations:
Defense and NASA
Management**

Product Title	Air Force Academy: Gender and Racial Disparities (GAO/NSIAD-93-244)
	Air Force Appropriations: Funding Practices at the Ballistic Missile Organization (GAO/NSIAD-93-47)
	Army Maintenance: Savings Possible by Stopping Unnecessary Depot Repairs (GAO/NSIAD-92-176)
	Biological Warfare: Role of Salk Institute in Army's Research Program (GAO/NSIAD-92-33)
	Chemical and Biological Defense: U.S. Forces Are Not Adequately Equipped to Detect All Threats (GAO/NSIAD-93-2)
	Chemical Weapons Destruction: Issues Affecting Program Cost, Schedule, and Performance (GAO/NSIAD-93-50)
	Commercial Practices: DOD Could Save Millions by Reducing Maintenance and Repair Inventories (GAO/NSIAD-93-155)
	Defense Inventory: Applying Commercial Purchasing Practices Should Help Reduce Supply Costs (GAO/NSIAD-93-112)
	Defense Inventory: Defense Logistics Agency's Materiel Returns Program (GAO/NSIAD-93-124)
	Defense Inventory: Depot Packing and Shipping Procedures (GAO/NSIAD-93-3)
	Defense Inventory: DOD Actions Needed to Ensure Benefits From Supply Depot Consolidation Efforts (GAO/NSIAD-92-136)
	Defense Inventory: Growth in Air Force and Navy Unrequired Aircraft Parts (GAO/NSIAD-90-100)
	Defense Inventory: Growth in Ship and Submarine Parts (GAO/NSIAD-90-111)

Defense Inventory: More Accurate Reporting Categories Are Needed
(GAO/NSIAD-93-31)

Defense Transportation: Defense Logistics Agency's Regional Freight Consolidation Centers (GAO/NSIAD-93-169)

Defense Transportation: Ineffective Oversight Contributes to Freight Losses (GAO/NSIAD-92-96)

DOD Food Inventory: Using Private Sector Practices Can Reduce Costs and Eliminate Problems (GAO/NSIAD-93-110)

DOD Medical Inventory: Reductions Can Be Made Through the Use of Commercial Practices (GAO/NSIAD-92-58)

DOD Special Access Programs: Administrative Due Process Not Provided When Access Is Denied or Revoked (GAO/NSIAD-93-162)

Environmental Cleanup: Observations on Consistency of Reimbursements to DOD Contractors (GAO/NSIAD-93-77)

Environmental Protection: Solving NASA's Current Problems Requires Agencywide Emphasis (GAO/NSIAD-91-146)

Environment, Safety, and Health: Environment and Workers Could Be Better Protected at Ohio Defense Plants (GAO/RCED-86-61)

Financial Management: NASA's Financial Reports Are Based on Unreliable Data (GAO/AFMD-93-3)

Hazardous Materials: Upgrading of Underground Storage Tanks Can Be Improved to Avoid Costly Cleanups (GAO/NSIAD-92-117)

Hazardous Waste: Management Problems Continue at Overseas Military Bases (GAO/NSIAD-91-231)

Information Security: Disposition and Use of Classified Documents by Presidential Appointees (GAO/NSIAD-90-195)

Management Review: Follow-Up on the Management Review of the Defense Logistics Agency (GAO/NSIAD-88-107)

Military Bases: Analysis of DOD's Recommendations and Selection Process for Closures and Realignments (GAO/NSIAD-93-173)

NASA Aeronautics: Impact of Technology Transfer Activities Is Uncertain (GAO/NSIAD-93-137)

NASA Procurement: Agencywide Action Needed to Improve Management of Contract Modifications (GAO/NSIAD-92-87)

NASA Procurement: Proposed Changes to the Jet Propulsion Laboratory Contract (GAO/NSIAD-93-178)

NASA Property: Improving Management of Government Equipment Provided to Contractors (GAO/NSIAD-93-191)

National Aero-Space Plane: A Need for Program Direction and Funding Decisions (GAO/NSIAD-93-207)

National Aero-Space Plane: Restructuring Future Research and Development Efforts (GAO/NSIAD-93-71)

Navy Inventory: Better Controls Needed Over Planned Program Requirements (GAO/NSIAD-93-151)

Nuclear Energy: Environmental Issues at DOE's Nuclear Defense Facilities (GAO/RCED-86-192)

Ozone-Depleting Chemicals: Increased Priority Needed If DOD Is to Eliminate Their Use (GAO/NSIAD-92-21)

Personnel Security: Efforts by DOD and DOE to Eliminate Duplicative Background Investigations (GAO/RCED-93-23)

Property Disposal: DOD Is Handling Large Amounts of Excess Property in Europe (GAO/NSIAD-93-195)

Property Management: DOD Can Increase Savings by Reusing Industrial Plant Equipment (GAO/NSIAD-93-8)

Security Clearances: Due Process for Denials and Revocations by Defense, Energy, and State (GAO/NSIAD-92-99)

Chapter 1
Improving National Security and
International Affairs Programs

Space Programs: NASA's Independent Cost Estimating Capability Needs Improvement (GAO/NSIAD-93-73)

Space Project Testing: Uniform Policies and Added Controls Would Strengthen Testing Activities (GAO/NSIAD-91-248)

Space Station: Improving NASA's Planning for External Maintenance (GAO/NSIAD-92-271)

Technology Development: Future Use of NASA's Large Format Camera Is Uncertain (GAO/NSIAD-90-142)

The U.S. Nuclear Triad: GAO's Evaluation of the Strategic Modernization Program (GAO/T-PEMD-93-5)

International Trade, Finance, and Competitiveness Issue Area (Budget Function 150)

GAO Contact: Allan I. Mendelowitz, 202/512-4812

Impact of GAO's Work

The collapse of the Soviet bloc has shifted national priorities from defense to economic concerns. Economic performance will establish America's place in the world as it moves into the 21st century. America's "competitiveness"—the nation's ability to sustain a rising standard of living for its citizens in a complex world economy—will determine how successful this nation will be in the new global economy. International trade and finance policy will be important determinants of America's success. Trade regimes, access to and development of foreign resources and markets, and competitiveness of U.S. goods and services in the integrated world marketplace are key to the long-term health of the nation's economy. We have reviewed and reported on a number of these issues over the past year to help gauge the impact of events and the need for policy and management changes.

Our information helped the Congress assess a large number of critical issues being considered, such as

- the North American Free Trade Agreement debate,
- progress on agricultural trade,
- implementation of the U.S.-Canada Free Trade Agreement,
- issues affecting investment in the petroleum sector,
- intellectual property rights,
- developments in U.S.-Chilean trade,
- prospects for East European energy, and
- the business environment in the United States, Japan, and Germany.

Key Open Recommendations

In January 1992, we reported that federal export promotion programs lacked organizational and funding cohesiveness. We concluded that, as a result, the U.S. Government did not have reasonable assurances that its export promotion resources, which totaled \$2.7 billion in fiscal year 1991, were being used most effectively to emphasize sectors, regions, and programs with the highest potential return. We recommended that, to correct this situation, the Secretary of Commerce, as chair of the

19-member interagency Trade Promotion Coordinating Committee, work with other member agencies and the Director of the Office of Management and Budget to (1) develop a governmentwide strategic plan for carrying out federal export promotion programs and (2) ensure that the budget requests for these programs were consistent with their relative strategic importance. (GAO/NSIAD-92-49)

Our February 1992 report about the International Trade Commission (ITC) identified ambiguities in the agency's governing statute. We found that these ambiguities had created disagreements between Chairs and Commissioners about who had ultimate responsibility for ITC's administration and adversely affected its operations. We suggested that, to improve management, the Congress replace replacing the ITC's current statutory administrative override authority with decisionmaking requirements like those found in other independent agencies. Also, we suggested that the Congress clarify the statutory provisions concerning budget responsibilities. (GAO/NSIAD-92-45)

Our January 1992 report on Agricultural Trade Offices showed that the Department was not making the best use of its resources. We recommended that the Secretary of Agriculture take a variety of actions to clearly define the role of the Agricultural Trade Offices and evaluate their effectiveness. (GAO/NSIAD-92-65)

In May 1993, we recommended that the Federal Reserve require each Federal Reserve Bank to begin charging foreign banks for the costs of examining their U.S. agencies, branches, and representative offices. If the Federal Reserve continues to believe that the assessment of examination charges under Foreign Bank Supervision Enhancement Act of 1991 creates a conflict with U.S. treaty and trade obligations, it should seek an amendment to the act. (GAO/GGD-93-35R)

Related Products With
Open Recommendations:
International Trade,
Finance, and
Competitiveness

Product Title

Customs Service: Trade Enforcement Activities Impaired by Management Problems (GAO/GGD-92-123)

Export Controls: Issues In Removing Militarily Sensitive Items From the Munitions List (GAO/NSIAD-93-67)

Export Promotion: Federal Efforts to Increase Exports of Renewable Energy Technologies (GAO/GGD-93-29)

Export Promotion: Federal Programs Lack Organizational and Funding Cohesiveness (GAO/NSIAD-92-49)

Export Promotion: Problems in the Small Business Administration's Programs (GAO/GGD-92-77)

Federal Research: Lessons Learned From SEMATECH (GAO/RCED-92-283)

Foreign Direct Investment: Assessment of Commerce's Annual Report and Data Improvement Efforts (GAO/NSIAD-92-107)

International Trade: Agricultural Trade Offices' Role in Promoting U.S. Exports Is Unclear (GAO/NSIAD-92-65)

International Trade: Changes Needed to Improve Effectiveness of the Market Promotion Program (GAO/GGD-93-125)

International Trade Commission: Administrative Authority Is Ambiguous (GAO/NSIAD-92-45)

International Trade: Easing Foreign Visitors' Arrivals at U.S. Airports (GAO/NSIAD-91-6)

Loan Guarantees: Export Credit Guarantee Programs' Costs are High (GAO/GGD-93-45)

North American Free Trade Agreement: Assessment of Major Issues (GAO/GGD-93-137)

Nuclear Nonproliferation: Better Controls Needed Over Weapons-Related Information and Technology (GAO/RCED-89-116)

Nuclear Nonproliferation: Controls Over the Commercial Sale and Export of Tritium Can Be Improved (GAO/RCED-91-90)

Chapter 1
Improving National Security and
International Affairs Programs

Nuclear Nonproliferation: DOE Needs Better Controls to Identify Contractors Having Foreign Interests (GAO/RCED-91-83)

Technology Transfer: Barriers Limit Royalty Sharing's Effectiveness (GAO/RCED-93-6)

Technology Transfer: Federal Efforts to Enhance the Competitiveness of Small Manufacturers (GAO/RCED-92-30)

International Affairs Issue Area (Budget Function 150)

GAO Contact: Joseph E. Kelley, 202/512-4128

Impact of GAO's Work

With the end of the Cold War, U.S. national security and foreign affairs policies and objectives have come under increased scrutiny in recognition of the changing world order and the corresponding need to reassess U.S. security interests—military, political, and economic. Federal budget constraints have further reinforced the need to reexamine foreign policy objectives and program priorities. Policy and program shifts are under way to (1) downsize U.S. military forces, (2) place greater emphasis on strengthening our economic security, (3) promote democracy around the world, (4) address worldwide arms control and proliferation concerns, and (5) restructure our foreign assistance programs.

Much of our work in 1993 has concentrated on what changes are needed to redirect and better manage foreign affairs programs and priorities, as well as on providing increased oversight of program expenditures. Our comprehensive analysis of the Agency for International Development's (AID) management of economic assistance resources and our recent testimony on the future direction of U.S. assistance have provided the new administration and the Congress with specific recommendations on what needs to be done to restructure U.S. aid. Our assessment of the proposed consolidation of Radio Free Europe/Radio Liberty and the Voice of America—provided to both administration decisionmakers and congressional legislators for their use in considering the consolidation proposal—showed that estimated cost savings may not be as high as anticipated and highlighted other constraints that need to be addressed in making any final decision. Our work on international counternarcotics programs has contributed to the current effort to reassess the U.S. government's approach and strategy for dealing with the drug problem.

We have also assessed how well the U.S. government has, either bilaterally or through multilateral organizations, addressed such critical issues as peacekeeping in Somalia and Cambodia and the implementation of sanctions in Serbia and Haiti. Our testimony on the U.N. peacekeeping operation in Cambodia disclosed significant difficulties in carrying out the operation and weaknesses in U.N. peacekeeping planning and support systems. More generally, our work on U.S. participation in U.N. organizations continued to focus on the need for improved

management—a key U.S. government objective vis-a-vis the United Nations.

Our examinations of various U.S. bilateral programs identified program management weaknesses and served as a basis for improved congressional oversight. Our review of the commercial foreign military sales program found serious problems that contributed to the program's termination. Our testimony on Nunn-Lugar funding for arms control efforts in the former Soviet Union focused on slow funds disbursement and corresponding limited progress in achieving the legislation's intent. Our work on the U.S.-Israeli Arrow antitactical ballistic missile program likewise pointed out problems with the U.S. government's limited control over program-related U.S. technology and funding and provided specific recommendations to the Department of Defense (DOD) to strengthen program management. On the basis of our recommendation that DOD develop accurate baselines for the Arrow program's cost, schedule, and technical performance and use them to assess alternatives, the Senate Appropriations Committee has directed DOD to conduct such a study and report the results to the Committee.

Key Open Recommendations

In June 1993, we reported on the need for AID to address management problems to ensure that AID is adequately meeting its foreign economic assistance responsibilities. We made numerous recommendations dealing with specific problems and recommended that AID play a leadership role in developing a strategic direction for U.S. foreign economic assistance. We further recommended that the AID Administrator bring AID's management systems into balance with the agency's decentralized organizational structure and establish a "total work force" planning and management process. (GAO/NSIAD-93-106)

We found that DOD did not have valid baseline information on the U.S.-Israel Arrow antitactical ballistic missile program necessary to assess its cost, schedule, and technical performance and to evaluate its cost-effectiveness relative to U.S. alternatives. We further found that the U.S. government had exercised only limited control over U.S. technology and funds in the program. We recommended that DOD develop accurate baselines and use them to assess the cost-effectiveness of U.S. alternatives to Arrow for meeting Israel's ballistic missile defense needs. We further recommended that DOD ensure that no additional Arrow or related contracts were signed until a series of steps are taken to improve oversight. (GAO/NSIAD-93-254)

In a series of reviews of the Department of State's management of its overseas posts, we found that posts did not have sufficient management controls to ensure full compliance with applicable regulations and minimize their vulnerability to fraud, waste, and abuse. We recommended that posts adopt a more proactive approach in identifying opportunities for management improvement and cost reductions. (GAO/NSIAD-93-88 and GAO/NSIAD-93-190)

In July 1992, we reported on the progress of the Voice of America's (VOA) \$1.2 billion program to modernize its broadcast facilities. We found that VOA's facilities modernization program had been hampered by delays and changes in funding priorities. We recommended that the Director of the U.S. Information Agency require a fully documented cost-benefit analysis before approving further modernization project proposals. (GAO/NSIAD-92-150)

We reviewed progress being made and problems being experienced by U.S. and Colombian agencies in implementing U.S. counternarcotics programs in Colombia. We found that the U.S. government lacked data needed to evaluate program effectiveness and that numerous obstacles and budgetary constraints had impeded program implementation. We recommended that the Director of the Office of National Drug Control Policy reevaluate U.S. counternarcotics programs in Colombia and throughout the Andean region. (GAO/NSIAD-93-158)

Related Products With Open Recommendations: International Affairs

Product Title

Agency for International Development: The Minority Shipping Program Is Constrained by Program Requirements (GAO/NSIAD-92-304)

AID Management: EEO Issues and Protected Group Underrepresentation Require Management Attention (GAO/NSIAD-93-13)

AID Management: Strategic Management Can Help AID Face Current and Future Challenges (GAO/NSIAD-92-100)

Aid to Kenya: Accountability for Economic and Military Assistance Can Be Improved (GAO/NSIAD-93-57)

Aid to Nicaragua: U.S. Assistance Supports Economic and Social Development (GAO/NSIAD-92-203)

Aid to Panama: Improving the Criminal Justice System (GAO/NSIAD-92-147)

American Samoa: Inadequate Management and Oversight Contribute to Financial Problems (GAO/NSIAD-92-64)

Arms Control: U.S. and International Efforts to Ban Biological Weapons (GAO/NSIAD-93-113)

AV-8B Program: Aircraft Sales to Foreign Government to Fund Radar Procurement (GAO/NSIAD-93-24)

Classified Information: Volume Could Be Reduced by Changing Retention Policy (GAO/NSIAD-93-127)

Defense Acquisition: U.S.-German Examinations of the MLRS Terminal Guidance Warhead Program (GAO/NSIAD-92-7)

Drug Control: Communications Network Funding and Requirements Uncertain (GAO/NSIAD-92-29)

Drug Control: Inadequate Guidance Results in Duplicate Intelligence Production Efforts (GAO/NSIAD-92-153)

Drug Control: Revised Drug Interdiction Approach Is Needed in Mexico (GAO/NSIAD-93-152)

Drugs: International Efforts to Attack a Global Problem (GAO/NSIAD-93-165)

Drug War: Drug Enforcement Administration Staffing and Reporting in Southeast Asia (GAO/NSIAD-93-82)

EL Salvador: Efforts to Satisfy National Civilian Police Equipment Needs (GAO/NSIAD 93-100BR)

Export Controls: Issues In Removing Militarily Sensitive Items From the Munitions List (GAO/NSIAD-93-67)

Financial Management: Fiscal Year 1992 Audit of the Defense Cooperation Account (GAO/NSIAD-93-185)

Financial Management: Inadequate Accounting and System Project Controls at AID (GAO/AFMD-93-19)

Financial Management: Serious Deficiencies in State's Financial Systems Require Sustained Attention (GAO/AFMD-93-9)

Food Aid: Management Improvements Are Needed to Achieve Program Objectives (GAO/NSIAD-93-168)

Foreign Assistance: Accuracy of AID Statistics on Dollars Flowing Back to the U.S. Economy Is Doubtful (GAO/NSIAD-93-196)

Foreign Assistance: AID Can Improve Its Management of Overseas Contracting (GAO/NSIAD-91-31)

Foreign Assistance: AID's Private-Sector Assistance Program at a Crossroads (GAO/NSIAD-93-55)

Foreign Assistance: AID Strategic Direction and Continued Management Improvements Needed (GAO/NSIAD-93-106)

Foreign Assistance: Combating HIV/AIDS in Developing Countries (GAO/NSIAD-92-244)

Foreign Assistance: Improvements Needed in AID's Oversight of Grants and Cooperative Agreements (GAO/NSIAD-93-202)

Foreign Assistance: Meeting the Training Needs of Police in New Democracies (GAO/NSIAD-93-109)

Foreign Assistance: Promising Approach to Judicial Reform in Colombia (GAO/NSIAD-92-269)

Foreign Assistance: Promoting Judicial Reform to Strengthen Democracies (GAO/NSIAD-93-149)

Foreign Assistance: U.S. Efforts to Spur Panama's Economy Through Cash Transfers (GAO/NSIAD-93-56)

Foreign Disaster Assistance: AID Has Been Responsive but Improvements Can Be Made (GAO/NSIAD-93-21)

Foreign Economic Assistance: Better Controls Needed Over Property Accountability and Contract Close Outs (GAO/NSIAD-90-67)

Information Resources Management: Initial Steps Taken But More Improvements Needed in AID's IRM Program (GAO/IMTEC-92-64)

Internal Controls: AID Missions Overstate Effectiveness of Controls for Host Country Contracts (GAO/NSIAD-91-116)

International Procurement: NATO Allies' Implementation of Reciprocal Defense Agreements (GAO/NSIAD-92-126)

Military Aid: Stronger Oversight Can Improve Accountability (GAO/NSIAD-92-41)

Military Coproduction: U.S. Management of Programs Worldwide (GAO/NSIAD-89-117)

Military Sales to Israel and Egypt: DOD Needs Stronger Controls Over U.S.-Financed Procurements (GAO/NSIAD-93-184)

Multilateral Foreign Aid: U.S. Participation in the International Fund for Agricultural Development (GAO/NSIAD-93-176)

Nuclear Nonproliferation: Better Controls Needed Over Weapons-Related Information and Technology (GAO/RCED-89-116)

Nuclear Nonproliferation: Controls Over the Commercial Sale and Export of Tritium Can Be Improved (GAO/RCED-91-90)

Nuclear Nonproliferation: DOE Needs Better Controls to Identify Contractors Having Foreign Interests (GAO/RCED-91-83)

Nuclear Nonproliferation: Japan's Shipment of Plutonium Raises Concerns About Reprocessing (GAO/RCED-93-154)

Peace Corps: Long-Needed Improvements to Volunteers' Health Care System (GAO/NSIAD-91-213)

Radon Testing in Federal Buildings Needs Improvement and HUD's Radon Policy Needs Strengthening (GAO/T-RCED-91-48)

Security Assistance: Observations on Post-Cold War Program Changes
(GAO/NSIAD-92-248)

Security Assistance: Observations on the International Military Education
and Training Program (GAO/NSIAD-90-215BR)

State Department: Management Weaknesses at the U.S. Embassies in
Panama, Barbados, and Grenada (GAO/NSIAD-93-190)

State Department: Management Weaknesses at the U.S. Embassy in
Mexico City, Mexico (GAO/NSIAD-93-88)

State Department: Need to Ensure Recovery of Overseas Medical
Expenses (GAO/NSIAD-92-277)

The Drug War: Colombia Is Undertaking Antidrug Programs, but Impact Is
Uncertain (GAO/NSIAD-93-158)

UNESCO: Status of Improvements in Management Personnel, Financial,
and Budgeting Practices (GAO/NSIAD-92-172)

United Nations: U.S. Participation in Peacekeeping Operations
(GAO/NSIAD-92-247)

Voice of America: Management Actions Needed to Adjust to a Changing
Environment (GAO/NSIAD-92-150)

Weapons Codevelopment: U.S. National Issues in the MLRS Terminal
Guidance Warhead Program (GAO/NSIAD-92-55)

Military Operations and Capabilities Issue Area (Budget Function 050)

GAO Contact: Mark E. Gebicke, 202/512-5140

Impact of GAO's Work

During fiscal year 1992, we continued to complete assignments involving operational issues pertaining to the Persian Gulf War. Although the war was of limited duration, it nonetheless highlighted several operational and support problems that required attention. We identified improvements needed in the areas of deployment transportation systems, medical readiness and training, and chemical and biological defense capabilities. We identified improvements needed in dealing with unanticipated hazards associated with U.S. weapons systems and munitions, such as depleted uranium and unexploded submunitions. We also identified lessons learned, applicable to the future, in the areas of airlift capabilities, joint training, and use of reserve personnel.

Aside from Gulf War-related issues, our work during the past fiscal year identified improvements under way and still required to bring about better management and more effective use of computer simulation technology to enhance military training and to make improvements in other areas of training, such as the use of troop schools, and training involving National Guard combat units.

We identified numerous opportunities to provide improved and more cost-effective logistical support to military operations, such as (1) improving Navy management of backorders, (2) improving shipyard labor estimates, (3) reassessing war reserve requirements, (4) having National Guard units use the Army's supply system for direct supply operations and reducing the National Guard's inventory investment, (5) focusing on the systemic causes of problem parts, and (6) examining whether additional land prepositioning of equipment could reduce afloat prepositioning requirements. We also identified continuing equipment shortages facing Army reserve support units and the need to overcoming these shortages a higher priority for reserve units facing deployment time frames comparable to active duty contingency forces.

Our review of the operation and maintenance (O&M) budget requests for fiscal year 1994 identified potential reductions and rescissions of about \$6.7 billion to the services' and the Department of Defense's (DOD)

activities. These reductions and rescissions were due to excessive unobligated funds remaining from prior years' O&M appropriations, changed circumstances since the time the budget requests were submitted, and other factors.

In reviewing personnel issues, we (1) provided important objective data to the Congress for use in its deliberations on the issue of homosexuals in the military and (2) identified force-shaping and skill imbalance problems confronting DOD as it downsizes its civilian work force issues germane to congressional decisionmaking in authorizing the use of financial separation incentives. We also identified significant differences in the cost of producing military officers between the three types of commissioning programs and needed management improvements to produce a more cost-effective mix of officer personnel.

Key Open
Recommendations

Prepositioning of equipment and support items is intended to enable the United States to respond to distant contingencies more rapidly than if they had to be deployed from the United States. The Gulf War highlighted the importance of afloat prepositioning; its costs, however, are about four times that of land prepositioning. While the U.S. Transportation Command continues to investigate additional afloat prepositioning, we have recommended that the Secretary of Defense determine whether additional land prepositioning could reduce afloat prepositioning requirements. (GAO/NSIAD-93-39) The Congress continues to have a high degree of interest in the afloat prepositioning issue, particularly as it affects the potential for Army-Marine Corps joint operations.

DOD has been delayed in responding to recommendations in our report on Officer Commissioning Programs about the need for management improvements to produce a more cost-effective personnel mix from the commissioning sources. (GAO/NSIAD-93-37) A part of the delay is attributable apparently to delays in the appointment process for relevant assistant secretaries.

The Congress has supported increased use of simulation technology but has had some concerns about DOD's management in this area. A focal point for improved interservice coordination and management initiatives has been the Defense Modeling and Simulation Office, created in 1991. But, action to provide permanent staffing for this office is still incomplete, with only one permanent position currently provided. (GAO/NSIAD-93-122)

**Related Products With
Open Recommendations:
Military Operations and
Capabilities**

Product Title

Aerial Refueling Initiative: Cross-Service Analysis Needed To Determine Best Approach (GAO/NSIAD-93-186)

Air Force Supply: Improvements Needed in Management of Air Mobility Command's Forward Supply System (GAO/NSIAD-93-10)

Army Force Structure: Need to Determine Changed Threat's Impact on Reserve Training Divisions (GAO/NSIAD-92-182)

Army Housing: Overcharges and Inefficient Use of On-Base Lodging Divert Training Funds (GAO/NSIAD-90-241)

Army Housing: Overcharges for On-Base Lodging Have Not Been Repaid (GAO/NSIAD-93-188)

Army Inventory: Current Operating and War Reserve Requirements Can Be Reduced (GAO/NSIAD-93-119)

Army Inventory: Divisions' Authorized Levels of Demand-Based Items Can be Reduced (GAO/NSIAD-93-9)

Army Logistics: Better Approach Needed to Identify Systemic Causes of Problem Parts (GAO/NSIAD-93-86)

Army Maintenance: Strategy Needed to Integrate Military and Civilian Personnel Into Wartime Plans (GAO/NSIAD-93-95)

Army Reserve Components: Accurate and Complete Data Are Needed to Monitor Full-Time Support Program (GAO/NSIAD-92-70)

Army Training: Commanders Lack Guidance and Training for Effective Use of Simulations (GAO/NSIAD-93-211)

Army Training: Expenditures for Troop Schools Have Not Been Justified (GAO/NSIAD-93-172)

Army Training: Long-standing Control Problems Hinder the CAPSTONE Program (GAO/NSIAD-92-261)

Contract Maintenance: Improvements Needed in Air Force Management of Interim Contractor Support (GAO/NSIAD-92-233)

Defense Relocation Assistance: Service Information Systems Operating, but Not Yet Interactive (GAO/NSIAD-92-186)

Depot Maintenance: Requirement to Update Maintenance Analyses Should Be Modified (GAO/NSIAD-93-163)

Desert Shield/Storm: Air Mobility Command's Achievements and Lessons for the Future (GAO/NSIAD-93-40)

Disaster Assistance: DOD's Support for Hurricanes Andrew and Iniki and Typhoon Omar (GAO/NSIAD-93-180)

DOD Commercial Transportation: Savings Possible Through Better Audit and Negotiation of Rates (GAO/NSIAD-92-61)

DOD Service Academies: Improved Cost and Performance Monitoring Needed (GAO/NSIAD-91-79)

Household Goods: Competition Among Commercial Movers Serving DOD Can Be Improved (GAO/NSIAD-90-50)

Military Afloat Prepositioning: Wartime Use and Issues for the Future (GAO/NSIAD-93-39)

Military Aircraft: Policies on Government Officials' Use of 89th Military Airlift Wing Aircraft (GAO/NSIAD-92-133)

Military Downsizing: Balancing Accessions and Losses Is Key to Shaping the Future Force (GAO/NSIAD-93-241)

Military Health Care: Recovery of Medical Costs From Liable Third Parties Can Be Improved (GAO/NSIAD-90-49)

National Guard: Using the Army's Supply System Will Reduce the Guard's Inventory Investment (GAO/NSIAD-93-25)

Naval Academy: Gender and Racial Disparities (GAO/NSIAD-93-54)

Naval Air Operations: Interservice Cooperation Needs Direction From Top (GAO/NSIAD-93-141)

Naval Reserves: The Frigate Trainer Program Should Be Canceled (GAO/NSIAD-92-114)

Navy Housing: Transient Lodging Operations Need Effective Management Control (GAO/NSIAD-92-27)

Navy Maintenance: Improved Labor Estimates Can Reduce Shipyard Costs (GAO/NSIAD-93-199)

Navy Supply: Improved Backorder Management Will Reduce Material Costs (GAO/NSIAD-93-131)

Officer Commissioning Programs: More Oversight and Coordination Needed (GAO/NSIAD-93-37)

Operation Desert Shield: Problems in Deploying by Rail Need Attention (GAO/NSIAD-93-30)

Operation Desert Storm: Army Not Adequately Prepared to Deal With Depleted Uranium Contamination (GAO/NSIAD-93-90)

Operation Desert Storm: Full Army Medical Capability Not Achieved (GAO/NSIAD-92-175)

Operation Desert Storm: Improvements Required in the Navy's Wartime Medical Care Program (GAO/NSIAD-93-189)

Operation Desert Storm: Limits on the Role and Performance of B-52 Bombers in Conventional Conflicts (GAO/NSIAD-93-138)

Simulation Training: Management Framework Improved, but Challenges Remain (GAO/NSIAD-93-122)

Strategic Sealift: Part of the National Defense Reserve Fleet Is No Longer Needed (GAO/NSIAD-92-3)

National Security Analysis Issue Area (Budget Function 050)

GAO Contact: Richard A. Davis, 202/512-3504

Impact of GAO's Work

The Department of Defense (DOD) faces many critical issues as the nation moves toward building and supporting a smaller yet effective fighting force that can respond to post-Cold War national security needs. Our reports and testimonies have been used extensively by the Congress in its oversight of force structure, active-reserve mix, forward presence, roles and missions, and intelligence issues.

We aided the Congress in evaluating DOD's downsizing plans by analyzing the assumptions underlying force structure decisions and assessing alternative ways to accomplish missions. For example, our reviews of DOD's Mobility Requirements Study showed that other assumptions were as compelling as those used in the study and that changing the assumptions might reduce requirements for sealift capability. We also reported to the Congress that the Air Force's plans to build force projection composite wings in the United States were based on limited analysis of cost and other factors and would have significant limitations operating in peacetime and wartime. Our report on Navy carrier battle groups increased congressional awareness of less costly options to satisfy many of the carrier battle groups' traditional roles without unreasonably increasing the risk that U.S. national security would be threatened. For example, we found that a less expensive carrier force could be achieved by relying more heavily on increasingly capable surface combatants and amphibious assault ships to provide forward presence.

Our reviews of Army force structure issues contributed to congressional debate of several key aspects of the Army's force reduction plans. We reported that better coordination between the reserve components in the selection of units for inactivation might have provided more assurance that readiness of the Army's total force was maximized and that individual states were not disproportionately affected by the combined National Guard and Army Reserve inactivations. Our reviews of Desert Storm activities increased awareness of support force shortages, problems encountered in mobilizing reserve forces for the war, and the effect of the limitations of the President's Selected Reserve callup authority. Our testimony and report on problems encountered in managing the withdrawal of personnel and equipment from Europe increased

congressional awareness that the pace of the withdrawal was exceeding the Army's ability to manage it.

We assisted in congressional efforts to reduce unnecessary overlap and duplication among the services through our work—examining service roles and functions. In August 1993, we reported that the depth of analysis of many functions included in the review by the Chairman of the Joint Chiefs of Staff roles and functions was insufficient for proposing significant reductions in overlapping functions. We also identified several opportunities for additional reductions and consolidations that would enhance the economy and the efficiency of DoD operations, such as reassessing Army and Marine Corps requirements for light forces, consolidating certain test capabilities, and reassessing the composition of nuclear forces.

With the emergence of DoD as a major player in the war on drugs, we have assessed how well it uses its intelligence assets to support the drug law enforcement community. This work has been used extensively by the House Committee on Government Operations. The Chairs of the major authorizing and appropriating committees and the various special and select committees on drug issues have also requested our assistance. We have issued several reports on this issue and have made recommendations affecting the Defense Intelligence agency, the Office of National Drug Control Policy, the drug law enforcement community, and the Director of the Central Intelligence Agency.

Key Open Recommendations

Regarding Army Reserve Forces, we recommended that the Secretary of the Army, in refining the Army's reserve force reduction plans, formalize coordination procedures among the National Guard Bureau; the Office of the Chief, Army Reserve; the Forces Command; and U.S. Army Reserve Command officials and better document the reasons why specific units are selected for inactivation or reduction. (GAO/NSIAD-93-145)

Regarding Navy tactical aviation force structure, we recommended that the Secretary of Defense direct the Secretary of the Navy to revalidate the need for another strike and fighter aircraft by demonstrating that there was or would be a military threat that it could not meet with the present weapons systems and force structure. (GAO/NSIAD-93-144)

**Related Products With
Open Recommendations:
National Security Analysis**

Product Title

**Air Force Organization: More Assessment Needed Before Implementing
Force Protection Composite Wings (GAO/NSIAD-93-44)**

**Army Force Structure: Future Reserve Roles Shaped by New Strategy,
Base Force Mandates, and Gulf War (GAO/NSIAD-93-80)**

**Army Reserve Forces: Applying Features of Other Countries' Reserves
Could Provide Benefits (GAO/NSIAD-91-239)**

**Army Reserve Forces: Process for Identifying Units for Inactivation Could
Be Improved (GAO/NSIAD-93-145)**

**DOD's Mobility Requirements: Alternative Assumptions Could Affect
Recommended Acquisition Plan (GAO/NSIAD-93-103)**

**Financial Systems: Weaknesses Impede Initiatives to Reduce Air Force
Operations and Support Costs (GAO/NSIAD-93-70)**

**Mine Warfare: Consolidation at Ingleside Has Not Been Justified
(GAO/NSIAD-93-147)**

**Naval Aviation: Consider All Alternatives Before Proceeding With the
F/A-18E/F (GAO/NSIAD-93-144)**

**Navy Acquisition: AN/BSY-1 Combat System Operational Evaluation
(GAO/NSIAD-93-81)**

**Navy Carrier Battle Groups: The Structure and Affordability of the Future
Force (GAO/NSIAD-93-74)**

**Navy Maintenance: Public/Private Competition for F-14 Aircraft
Maintenance (GAO/NSIAD-92-143)**

**Navy Torpedo Program: MK-48 ADCAP Propulsion System Upgrade Not
Needed (GAO/NSIAD-92-191)**

Operation Desert Storm: Army Had Difficulty Providing Adequate Active and Reserve Support Forces (GAO/NSIAD-92-67)

Overseas Allowances: Improvements Needed in Administration (GAO/NSIAD-90-46)

POW/MIA Affairs: Issues Related to the Identification of Human Remains From the Vietnam Conflict (GAO/NSIAD-93-7)

Reserve Forces: Aspects of the Army's Equipping Strategy Hamper Reserve Readiness (GAO/NSIAD-93-11)

Roles and Functions: Assessment of the Chairman of the Joint Chiefs of Staff Report (GAO/NSIAD-93-200)

U.S. Corps of Engineers: Better Management Needed for Mobilization Support (GAO/NSIAD-93-116)

**Systems Development
and Production Issue
Area (Budget
Function 050)**

GAO Contact: Louis J. Rodrigues, 202/512-4841

Impact of GAO's Work

The United States Armed Forces' technologically advanced weapons systems have been seen as a major factor in our military success in the Persian Gulf War. This technological superiority has always been emphasized as the strength we needed to meet the numerically superior Warsaw Pact. The need to maintain this edge, even after the collapse of the Soviet Union and the dissolution of the Warsaw Pact, has been a constant theme of the services and the Department of Defense (DOD). But, the long-range cost of acquiring the advanced systems that the Services see as needed is staggering—especially in a period of shrinking defense budgets. DOD is proposing to spend several hundred billion dollars through the 1990s on the development and procurement of weapon systems and related items. In response to the planned system developments and congressional interest in reducing unneeded expenditures, we have continued several bodies of work, evaluating the requirements for and the economy, the efficiency and the effectiveness of planned acquisitions of major air; sea; ground; space; missile; electronic warfare; and command, control, communication, and intelligence systems. In addition, to assist the Appropriations and Armed Services Committees, we have conducted specific budget analyses that identified over \$2 billion in potential reductions in the Fiscal Year 1994 Procurement and Research, Development, Test, and Evaluation Budgets.

We supported congressional deliberations on the B-2 and identified over \$100 million in program savings that could be achieved by the Air Force because of changes to the production schedule. On the basis of our suggestions, the Air Force took actions to achieve these savings. Our work on the C-17 was instrumental in the congressional decision to limit fiscal year 1993 production to six rather than the requested eight aircraft because of cost increases, schedule slippage, and technical problems identified during testing. That decision resulted in a \$658 million reduction in the fiscal year 1993 C-17 production budget.

Our work on the Airborne Self-Protection Jammer resulted in the Congress directing that the Navy not obligate funds for procurement of the system. The Navy, in turn, terminated the program—a projected saving of

\$975.2 million over the next 10 years. Our work on Military Satellite Communications pointed out opportunities for saving billions of dollars by taking advantage of modern technology and by using alternative satellite architectures based on common bus designs—standard satellite platforms capable of carrying various payloads.

We provided information to the Congress on several ground systems, including the heavy equipment transporter and the family of medium tactical vehicles. In both cases, we noted problems that could significantly affect the success of the programs. As a result of our work, some members of the Congress have called on the Army to cease production of the heavy equipment transporter until the problems we found have been corrected.

We have also continued our work on missiles, providing information and recommending improvements in the management of the acquisition of a number of systems, including the Tri-Service Standoff Attack Missile and the Advanced Cruise Missile.

Key Open Recommendations

In February 1993, we reported on the Apache manufacturer's oversight of its subcontractors, noting that ineffective oversight by the manufacturer and the Army contributed to past problems with parts for the Apache. We recommended that the Secretary of Defense not commit billions of dollars in production funds for the Longbow Apache program until the oversight of subcontractors was adequate to ensure satisfactory performance. (GAO/NSIAD-93-108)

In July 1993, we reported that DOD could save billions by adopting alternative satellite architectures based on common bus design and by inserting modern technology into its existing communication satellite systems. We recommended that the Secretary of Defense (1) not make any decisions regarding replenishment of existing military satellite communications systems until a coordinated process was established to insert modern technology into the architecture and (2) reassess the dual common bus alternative as a means of inserting modern technology to preclude continuation of customized satellites. (GAO/NSIAD-93-216)

In July 1993, we reported that the heavy equipment transporter had not shown that it could adequately accomplish its mission or that it was suitable for fielding. We recommended that the Secretary of Defense require the Army to stop conditionally accepting heavy equipment transporter tractors and trailers until the heavy equipment transporter

showed that it could meet its intended mission and reliability and maintainability requirements. (GAO/NSIAD-93-228)

In August 1993, we reported on the Army's procurement of medium tactical trucks—the 2.5-ton and 5-ton payload classes. The original procurement plan called for replacing over 120,000 trucks over 15 years at a cost of over \$17 billion. We found that the current plan to stretch out the procurement over 30 years was not practical. We recommended that the Secretary of the Army reassess the cost-effectiveness of the 30-year acquisition strategy and reconsider alternatives, especially the M939A2 alternative. We also recommended that the Secretary of the Army not proceed to full-rate production of the medium tactical vehicles until the reassessment was complete.

**Related Products With
Open Recommendations:
Systems Development and
Production**

Product Title

ADP Procurement: Prompt Navy Action Can Reduce Risks to SNAP III Implementation (GAO/IMTEC-92-69)

Air Force ADP: Lax Contract Oversight Led to Waste and Reduced Competition (GAO/IMTEC-93-3)

Antiarmor Weapons Acquisitions: Assessments Needed to Support Continued Need and Long-Term Affordability (GAO/NSIAD-93-49)

Apache Helicopter: Tests Results for 30-Millimeter Weapon System Inconclusive (GAO/NSIAD-93-134)

Army Acquisition: Effective Subcontractor Oversight Needed Before Longbow Apache Production (GAO/NSIAD-93-108)

Army Acquisition: Medium Truck Program Is Not Practical and Needs Reassessment (GAO/NSIAD-93-232)

Army Acquisition: More Testing Needed to Solve Heavy Equipment Transporter System Problems (GAO/NSIAD-93-228)

Army Acquisition: Palletized Load System Acquisition Quantity Overstated
(GAO/NSIAD-92-163)

Ballistic Missile Defense: Information on Directed Energy Programs for
Fiscal Years 1985 Through 1993 (GAO/NSIAD-93-182)

Comanche Helicopter: Program Needs Reassessment Due to Increased
Unit Cost and Other Factors (GAO/NSIAD-92-204)

Communications Acquisition: Army Still Needs to Determine Battlefield
Communications Capability (GAO/NSIAD-93-33)

Defense Support Program: Ground Station Upgrades Not Based on
Validated Requirements (GAO/NSIAD-93-148)

Desert Shield/Storm: Air Mobility Command's Achievements and Lessons
for the Future (GAO/NSIAD-93-40)

Drug Control: Communications Network Funding and Requirements
Uncertain (GAO/NSIAD-92-29)

Drug Control: Heavy Investment in Military Surveillance Is Not Paying Off
(GAO/NSIAD-93-220)

Drug Control: Inadequate Guidance Results in Duplicate Intelligence
Production Efforts (GAO/NSIAD-92-153)

Electronic Warfare: Inadequate Testing Led to Faulty SLQ-32s on Ships
(GAO/NSIAD-93-272)

Electronic Warfare: Laser Warning System Production Should Be Limited
(GAO/NSIAD-93-14)

Embedded Computer Systems: Software Development Problems Delay the
Army's Fire Direction Data Manager (GAO/IMTEC-92-32)

ICBM Modernization: Minuteman III Guidance Replacement Program Has
Not Been Adequately Justified (GAO/NSIAD-93-181)

Javelin Antitank Weapon: Quantity and Identification Capability Need to
Be Reassessed (GAO/NSIAD-92-330)

Chapter 1
Improving National Security and
International Affairs Programs

**Military Communications: Joint Tactical Information Distribution System
Issues (GAO/NSIAD-93-16)**

**Military Satellite Communications: Milstar Program Issues and Cost-Saving
Opportunities (GAO/NSIAD-92-121)**

**Military Satellite Communications: Opportunity to Save Billions of Dollars
(GAO/NSIAD-93-216)**

**National Aero-Space Plane: A Need for Program Direction and Funding
Decisions (GAO/NSIAD-93-207)**

**Navy Shipbuilding: Allegations of Mischarging at Bath Iron Works
(GAO/NSIAD-91-85)**

**Software Tools: Defense Is Not Ready to Implement I-CASE
Departmentwide (GAO/IMTEC-93-27)**

**Tactical Intelligence: Joint STARS Needs Current Cost and Operational
Effectiveness Analysis (GAO/NSIAD-93-117)**

**Undersea Surveillance: Navy Continues to Build Ships Designed for Soviet
Threat (GAO/NSIAD-93-53)**

Improving Resources, Community, and Economic Development Programs

Energy and Science Issue Area (Budget Function 270)

GAO Contact: Victor S. Rezendes, 202/512-3841

Impact of GAO's Work

Dramatic events on both the international and national scene—the end of the Cold War, worldwide concerns about nuclear proliferation, new mandates to clean up and restore rather than continuing to build a nuclear weapons complex, passage of the Energy Policy Act of 1992, and the advent of an administration focused on improving our economy through the application of science and technology initiatives—have shifted the mission, altered the landscape, and posed new and significant challenges for the Department of Energy (DOE).

Our work in recent years has played a major role in both exposing and proposing actions to deal with these and related issues and has led to savings of over \$5 billion.

Beginning in the late 1980s, we issued a number of reports questioning various aspects of DOE's new production reactor program. Initially, we focused on the lack of necessary information related to the cost, the benefits, and the schedule of building two multibillion dollar tritium production reactors. By early 1991, however, the need for additional nuclear weapons—and consequently tritium—was decreasing and we questioned the need and the strategy for building a new tritium production reactor. In September 1992, the Secretary of Energy informed the Congress that, because of nuclear weapons stockpile levels and the resulting effects on the need for tritium, the new production reactor program would be deferred and reactor design and construction efforts would be brought to a prompt and orderly closure. By not building a new reactor to produce tritium, DOE will save at least \$3.5 billion.

We have continued to review the broad range of technical and management issues critical to the successful and safe cleanup of the nuclear weapons complex. Our efforts resulted in recommendations to (1) improve the \$50 billion vitrification program at the Hanford Site, (2) implement cost-effective improvements in well drilling and ground water monitoring that could lead to over \$100 million in savings, and (3) improve DOE's Environmental Restoration Management Contracting and cleanup contractor indemnification approaches. We also continued to address the issue of improving the safety and the health of cleanup workers with a comprehensive report on DOE's Site Resident Program—its

principal method for conducting independent oversight—and a review of the Tiger Team Program. Finally, we identified \$320 million in potential savings in DOE's fiscal year 1994 cleanup program budget.

We have consistently made recommendations to improve DOE's management and oversight of its contractors, which operate DOE's nuclear weapons complex and other facilities at a cost of over \$16 billion annually. The recommendations have ranged from identifying better ways to administer the contractor performance award fee process to reducing the number of nonstandard contract clauses, which have allowed contractors to virtually ignore DOE direction. We have also recommended improved controls over funds obligated to major contractors, resulting in savings in fiscal year 1993 of \$334 million. Additional savings totaling over \$1.3 billion are expected by the end of fiscal year 1994. We have also recommended ways DOE can improve its information resource management (IRM), and our ongoing management review is highlighting additional reform measures to improve overall contractor accountability.

We have recommended that the Congress consider improvements that would lead to more comprehensive national energy planning. We have also provided the Congress with a comprehensive analysis of the factors that affect crude oil and petroleum product prices during shock and nonshock periods, and we pointed out other nations' policies for reducing oil and coal use in their industrial and transportation sectors. In addition, our work was instrumental in the development of several key provisions of the Energy Policy Act of 1992, including (1) added requirements for octane labeling for alternative motor fuels, along with additional state authority to enforce such requirements, and (2) federal certification of training programs for mechanics converting gasoline vehicles to operate on alternative fuels.

On the broader science and technology front, our work on the Small Business Innovation Research program—in which 11 agencies, including DOE, participate—was instrumental in congressional action leading to the re-authorization of the program but with more emphasis on commercialization in the private sector. In addition, our work pointed up abuses in charges for indirect, or overhead, costs by universities for federally funded research activities and led to a number of significant changes in the process for negotiating indirect cost rates, with other changes still under consideration by the Office of Management and Budget (OMB). We also alerted the Congress about potential conflicts of interest at universities and other organizations carrying out federal research

activities, and we pointed out that the Superconducting Supercollider was over budget, behind schedule, and would cost in excess of \$11 billion.

Key Open Recommendations

Energy Policy

In April 1993, we reported that now is an opportune time for the Congress to consider strengthening national energy policy planning. DOE has long struggled to develop useful energy plans and new requirements to integrate important issues, such as global warming policy options, which make it important to give DOE sufficient time to prepare comprehensive plans for the Congress to consider. DOE officials agree that more time is needed to prepare comprehensive plans and are working with the Congress to change reporting time frames. (GAO/RCED-93-29)

Departmental Management

In August 1993, we reported that DOE still had significant and pervasive management problems and was failing to properly manage and maintain its vast nuclear weapons complex, which is beset with major environmental contamination. Much of DOE's problem stems from loose controls over its contractors, which have long dominated departmental activities while eluding effective governmental oversight. We believe that DOE's leadership should establish a long-term strategy for correcting its management problem. Although DOE officials agree that their problems are significant and are making changes in DOE's organizational structure and contracting practices, fundamental problems in communication and work force skills will make reform difficult to achieve in the short run. (GAO/RCED-93-72)

Information Resource Management

In September 1992, we recommended that DOE, among other things, more closely link its IRM planning with strategic mission planning; give managers more authority to plan for their information needs on a departmentwide basis; and identify IRM activities as a material internal control weakness, under the Federal Managers' Financial Integrity Act, until IRM resources are being applied efficiently and are applied in accordance with laws, regulations, and policies. Although DOE agreed to implement all of our recommendations and has declared its IRM program deficiencies a material control weakness, it has not fully implemented the remaining recommendations. (GAO/IMTEC-92-10)

Support Services Contracting

In August 1991, we made recommendations to DOE and OMB that could reduce the cost of DOE's support services contracts by \$50 million to

\$100 million annually. DOE has taken some recommended actions, such as conducting cost comparisons before contracting for support services. In June 1993, however, the agencies agreed that efforts to achieve cost-effectiveness in DOE's support services contracts should be included as part of Secretary O'Leary's DOE-wide Contract Reform Task Force. Results of the task force are not expected until December 1993. Consequently, additional time is needed to determine if DOE's and OMB's actions will be adequate. (GAO/RCED-91-186)

Nuclear Security

In November 1992, we recommended that DOE take actions to ensure that its contractors are adequately analyzing, correcting, and validating security deficiencies at the facilities they operate for DOE. DOE has begun taking action to implement the recommendations; additional time, however, will be required to determine if those actions will be adequate. (GAO/RCED-93-10)

Hanford Tank Waste Program

In March 1993, we recommended that DOE postpone construction of the Hanford vitrification plant and renegotiate the Tri-Party Agreement with the state and the Environmental Protection Agency to establish a more realistic program schedule. In addition, we recommended that DOE develop life-cycle cost estimates for the program and report these to the Congress. DOE agreed with these recommendations and has deferred construction for 6 months to allow time to consider changes to the Tri-Party Agreement. In addition, DOE is developing life-cycle cost estimates for the program. (GAO/RCED-93-99)

Safety and Health Oversight

In May 1993, we recommended that DOE take a number of steps to strengthen a key headquarters program that maintains representatives at DOE sites to independently monitor field office and contractor performance in protecting workers' safety and health. DOE has accepted our recommendations and has begun to implement them. But, additional time is needed to determine whether DOE's actions will be adequate. (GAO/RCED-93-85)

Contractor Indemnification

In July 1993, we recommended that DOE develop a consistent policy for indemnifying its contractors against liabilities that could arise from the cleanup of the nation's weapons complex and that the policy should reflect existing statutory requirements for indemnifying Superfund cleanup contractors. The report was released September 8, 1993, and DOE has not yet had a chance to respond to our recommendations. (GAO/RCED-93-167)

Nuclear Waste Disposal

In May 1993, we reported that DOE's investigation of Yucca Mountain, Nevada, as a potential site for disposal of highly radioactive nuclear waste will, at its present pace, take at least 5 to 13 years longer than planned and cost more than DOE has estimated. Furthermore, DOE's initiatives to mitigate the probable delay, including establishing a revolving fund to ensure higher annual project funding, did not adequately address the disconnection between disposal program policy and funding priorities. We endorsed the Nuclear Waste Technical Review Board's earlier call for an independent review of the program. In conjunction with this, we recommended that the Congress defer consideration of changing the method for funding the disposal program until, among other things, an independent review of the program has been completed and appropriate legislative, policy, and/or programmatic changes to the program have been implemented. (GAO/RCED-93-124)

U.S. Nuclear Nonproliferation Policy

In June 1993, we recommended that in reviewing agreements for nuclear cooperation, the Congress may wish to consider the impact of an agreement's terms on the Congress's opportunities for oversight and on U.S. nonproliferation goals. As of late 1993, no proposed agreements for nuclear cooperation had come before the Congress for review. (GAO/RCED-93-154)

Nuclear Materials Licensing

In April 1993, because of the inconsistent way in which the Nuclear Regulatory Commission evaluates its nuclear materials licensing programs in achieving the goal of adequately protecting the public from radiation, we recommended that the Chair establish (1) common performance indicators in order to obtain comparable information to evaluate the effectiveness of both the agreement-state and Nuclear Regulatory Commission (NRC)-regulated state program in meeting NRC's goal and (2) specific criteria and procedures for suspending or revoking an agreement-state program using the new performance indicators. Once NRC ensures the effectiveness of the NRC-regulated state program using the new performance indicators, it should take aggressive action to suspend or revoke any agreement-state program that is incompatible or inadequate with the performance indicators. NRC agreed with our recommendations and is implementing them. (GAO/RCED-93-90)

Nuclear Regulation

In April 1993, we recommended that NRC establish common performance indicators for evaluating how the NRC-regulated and agreement-state programs regulate nuclear materials and develop specific criteria and procedures for suspending or revoking an agreement-state program. NRC has accepted our recommendations and intends to implement a new

evaluation program beginning in 1994 using performance indicators and to develop specific written procedures for terminating agreements with the agreement states. But, additional time will be needed to determine whether NRC's actions will be adequate. (GAO/RCED-93-90)

Federal Technology Transfer

In December 1992, we recommended that federal agencies operating royalty-sharing programs under the Federal Technology Transfer Act of 1986 take various actions to motivate scientists at federal laboratories to seek patents and licenses for their inventions. These include establishing an annual threshold of income to adequately reward federal inventors for their work and making more effective use of the royalties returned to federal laboratories. While some agencies have responded with positive steps, others have not, and congressional actions may be needed to further encourage these steps. (GAO/RCED-93-6)

University Indirect Costs

In August 1992, we reported that the government had been charged millions of dollars for unallowable, questionable, or improperly allocated indirect costs for federally sponsored research at universities. We recommended that OMB designate a single agency to negotiate indirect cost rates and examine ways to more directly involve the university community in evaluating alternative methods for reimbursing universities for indirect costs. OMB has taken various actions to tighten the process and plans to further study other issues, including the issue of designating one agency to negotiate rates with universities. (GAO/RCED-92-203)

Access to Federally Funded Research Results

In May 1992, we reported that growing interactions between universities and businesses increased the potential for conflicts-of-interest or other relationships that might give a business an unfair advantage in commercializing the results of federally funded research. We recommended that the Department of Health and Human Services (HHS) and the National Science Foundation (NSF) require that their grantees have procedures in place to manage potential conflicts. The National Institute of Health Revitalization Act of 1993 (Public Law 103-43) requires that HHS promulgate a financial conflict-of-interest regulation by December 1993. Meanwhile, OMB is seeking to establish uniform requirements for HHS, NSF, and all other federal agencies. (GAO/RCED-92-104)

SEMATECH Consortium

In our September 1992 "wrap-up" report, we concluded that SEMATECH had shown that a government-industry research and development consortium could help improve a U.S. industry's technological position. In the report, we identified eight lessons learned from the SEMATECH experience that the Congress may want to consider in authorizing support

for future consortia. Among them, the Congress may wish to consider specific criteria for determining when federal support for SEMATECH—and any other future consortia—should appropriately be terminated. (GAO/RCED-92-283)

**Related Products With
Open Recommendations:
Energy and Science**

Product Title

Biotechnology: Managing the Risks of Field Testing Genetically Engineered Organisms (GAO/RCED-88-27)

Cleanup Technology: Better Management for DOE's Technology Development Program (GAO/RCED-92-145)

Department of Energy: Better Information Resources Management Needed to Accomplish Missions (GAO/IMTEC-92-53)

Department of Energy: Cleaning Up Inactive Facilities Will Be Difficult (GAO/RCED-93-149)

Department of Energy: Management Problems Require a Long-Term Commitment to Change (GAO/RCED-93-72)

DOE Management: Better Planning Needed to Correct Records Management Problems (GAO/RCED-92-88)

DOE Management: Consistent Cleanup Indemnification Policy Is Needed (GAO/RCED-93-167)

DOE Management: Impediments to Environmental Restoration Management Contracting (GAO/RCED-92-244)

Electricity Regulation: Factors Affecting the Processing of Electric Power Applications (GAO/RCED-93-168)

Energy Conservation: Appliance Standards and Labeling Programs Can Be Improved (GAO/RCED-93-102)

Energy Information: Department of Energy Security Program Needs Effective Information Systems (GAO/IMTEC-92-10)

Energy Management: Contract Audit Problems Create the Potential for Fraud, Waste, and Abuse (GAO/RCED-92-41)

Energy Management: DOE Has Improved Oversight of Its Work for Others Program (GAO/RCED-93-111)

Energy Management: Systems Contracting Weaknesses Continue (GAO/RCED-93-143)

Energy Management: Using DOE Employees Can Reduce Costs for Some Support Services (GAO/RCED-91-186)

Energy Policy: Changes Needed to Make National Energy Planning More Useful (GAO/RCED-93-29)

Environment, Safety, and Health: Environment and Workers Could Be Better Protected at Ohio Defense Plants (GAO/RCED-86-61)

Federal Research: Lessons Learned From SEMATECH (GAO/RCED-92-283)

Federal Research: System for Reimbursing Universities' Indirect Costs Should Be Reevaluated (GAO/RCED-92-203)

Fossil Fuels: Improvements Needed in DOE's Clean Coal Technology Program (GAO/RCED-92-17)

Fossil Fuels: Ways to Strengthen Controls Over Clean Coal Technology Project Costs (GAO/RCED-93-104)

Hydroelectric Dams: Issues Surrounding Columbia River Basin Juvenile Fish Bypasses (GAO/RCED-90-180)

Natural Gas: Factors Affecting Approval Times for Construction of Natural Gas Pipelines (GAO/RCED-92-100)

Natural Gas: FERC's Compliance and Enforcement Programs Could Be Further Enhanced (GAO/RCED-93-122)

Nuclear Energy: Consequences of Explosion of Hanford's Single-Shell Tanks Are Understated (GAO/RCED-91-34)

Nuclear Energy: Environmental Issues at DOE's Nuclear Defense Facilities (GAO/RCED-86-192)

Nuclear Health and Safety: More Attention to Health and Safety Needed at Pantex (GAO/RCED-91-103)

Nuclear Health and Safety: More Can Be Done to Better Control Environmental Restoration Costs (GAO/RCED-92-71)

Nuclear Materials: Nuclear Arsenal Reductions Allow Consideration of Tritium Production Options (GAO/RCED-93-189)

Nuclear Nonproliferation: Better Controls Needed Over Weapons-Related Information and Technology (GAO/RCED-89-116)

Nuclear Nonproliferation: Controls Over the Commercial Sale and Export of Tritium Can Be Improved (GAO/RCED-91-90)

Nuclear Nonproliferation: DOE Needs Better Controls to Identify Contractors Having Foreign Interests (GAO/RCED-91-83)

Nuclear Nonproliferation: Japan's Shipment of Plutonium Raises Concerns About Reprocessing (GAO/RCED-93-154)

Nuclear Regulation: Better Criteria and Data Would Help Ensure Safety of Nuclear Materials (GAO/RCED-93-90)

Nuclear Regulation: NRC's Decommissioning Procedures and Criteria Need to Be Strengthened (GAO/RCED-89-119)

Nuclear Safety: Potential Security Weaknesses at Los Alamos and Other DOE Facilities (GAO/RCED-91-12)

Nuclear Science: Consideration of Accelerator Production of Tritium Requires R&D (GAO/RCED-92-154)

Nuclear Science: Monitoring Improved, but More Planning Needed for DOE Test and Research Reactors (GAO/RCED-92-123)

Nuclear Security: DOE Needs a More Accurate and Efficient Security Clearance Program (GAO/RCED-88-28)

Nuclear Security: DOE's Progress on Reducing Its Security Clearance Work Load (GAO/RCED-93-183)

Nuclear Security: Improving Correction of Security Deficiencies at DOE's Weapons Facilities (GAO/RCED-93-10)

Nuclear Security: Safeguards and Security Planning at DOE Facilities Incomplete (GAO/RCED-93-14)

Nuclear Waste: Changes Needed in DOE User-Fee Assessments to Avoid Funding Shortfall (GAO/RCED-90-65)

Nuclear Waste: Development of Casks for Transporting Spent Fuel Needs Modification (GAO/RCED-92-56)

Nuclear Waste: DOE's Management of Single-Shell Tanks at Hanford, Washington (GAO/RCED-89-157)

Nuclear Waste: DOE's Repository Site Investigations, a Long and Difficult Task (GAO/RCED-92-73)

Nuclear Waste: Hanford Tank Waste Program Needs Cost, Schedule, and Management Changes (GAO/RCED-93-99)

Nuclear Waste: Hanford's Well-Drilling Costs Can Be Reduced (GAO/RCED-93-71)

Nuclear Waste: Improvements Needed in Monitoring Contaminants in Hanford Soils (GAO/RCED-92-149)

Nuclear Waste: Operation of Monitored Retrievable Storage Facility Is Unlikely by 1998 (GAO/RCED-91-194)

Nuclear Waste: Pretreatment Modifications at DOE Hanford's B Plant Should Be Stopped (GAO/RCED-91-165)

Nuclear Waste: Questionable Uses of Program Funds at Lawrence Livermore Laboratory (GAO/RCED-92-157)

Nuclear Waste: Status of Actions to Improve DOE User-Fee Assessments
(GAO/RCED-92-165)

Nuclear Waste: Yucca Mountain Project Behind Schedule and Facing
Major Scientific Uncertainties (GAO/RCED-93-124)

Personnel Security: Efforts by DOD and DOE to Eliminate Duplicative
Background Investigations (GAO/RCED-93-23)

Safety and Health: Key Independent Oversight Program at DOE Needs
Strengthening (GAO/RCED-93-85)

Technology Transfer: Barriers Limit Royalty Sharing's Effectiveness
(GAO/RCED-93-6)

Technology Transfer: Federal Efforts to Enhance the Competitiveness of
Small Manufacturers (GAO/RCED-92-30)

Trans-Alaska Pipeline: Regulators Have Not Ensured That Government
Requirements Are Being Met (GAO/RCED-91-89)

University Research: Controlling Inappropriate Access to Federally
Funded Research Results (GAO/RCED-92-104)

Environmental Protection Issue Area (Budget Function 300)

GAO Contact: Peter F. Guerrero, 202/512-6111

Impact of GAO's Work

Over the last 20 years, our nation has spent about \$1 trillion to comply with environmental protection mandates. By the end of this decade, our nation will spend almost \$160 billion annually to address environmental protection. Despite this investment and the resulting improvements, many environmental expectations remain unfulfilled. As a result of the federal budget deficit, the Environmental Protection Agency's (EPA) operating budget has remained relatively flat. Yet, the agency must manage strengthened requirements to existing regulations and new mandates imposed on the regulated community.

Despite increasing pressures to be accountable for solutions, EPA's funding situation has caused it to rely heavily on states and local governments to implement and monitor environmental regulations. But, these governments also face budget constraints that limit their ability to meet these responsibilities. For example, states have not sufficiently funded enforcement of asbestos removal and disposal and localities have not been able to finance the billions of dollars needed to invest in the infrastructure to meet existing and new drinking water and wastewater treatment requirements.

Our work has been in the forefront in highlighting our nation's recurring environmental problems and recommending ways in which the Congress and EPA can effectively address those concerns. In an attempt to seek a more realistic balance between environmental expectations and available resources, we have continued to recommend that EPA develop priorities among these competing demands based on risk to human health and the environment. We recommended that, in testing both chemicals and pesticides, EPA give priority to regulating the high-risk compounds first. We also recommended that EPA work with the Congress to adequately fund those programs that it has acknowledged as high risks to the public. To highlight possible new sources of funding, we reported that carefully designed pollution taxes—levied on pollution emissions or on harmful products or substances—in some cases could be an alternative to regulation that would reduce pollution and raise revenues to invest in further environmental protection.

Key Open Recommendations

Air Quality

Our work highlighted numerous delays in state implementation of the Clean Air Act (CAA). For example, we noted that EPA had delayed issuing final rules for the operating permit program, which in turn has delayed state programs. (GAO/RCED-93-59)

Limited EPA and state resources have also hampered progress. We recommended that EPA help states obtain the necessary legislative authority to assess fees to cover costs and present its own realistic long-term resource estimates to the Congress. We further pointed out that states were late in submitting their CAA implementation plans to EPA and that the agency had been slow in approving them. (GAO/RCED-93-113)

We recommended that EPA address these delays and delegate plan approval authority to EPA regional administrators.

Evidence now suggests that inhaling asbestos fibers can cause cancer and other serious respiratory illnesses. Many older buildings that contain asbestos materials need to be renovated, and disturbing the materials may release asbestos fibers into the environment, posing a health threat. EPA is required to develop regulations to ensure worker safety when removing or disposing of asbestos materials. About 39 percent, or 14,000, of federally-owned buildings contain "friable" asbestos, a greater danger because simple hand pressure causes it to crumble, releasing fibers. We reported that the agencies in these buildings had not implemented asbestos maintenance programs. These agencies, along with the Occupational Safety and Health Administration (OSHA), are beginning to respond to our recommendations that OSHA clarify its requirements to safely manage asbestos removal and that agencies ensure compliance. (GAO/RCED-93-9)

Generally, EPA delegated overall responsibility to monitor and enforce compliance with asbestos regulations to state and local agencies. Once again, states reported that they did not have the resources and EPA regional offices had inconsistently implemented the program. (GAO/RCED-92-83)

EPA has begun to respond to our recommendations that to better use resources, it define through performance standards the minimum monitoring level for states while still protecting the public's health.

Water Quality

Several of our reports highlighted serious shortcomings in EPA's drinking water protection program. In 1990, we reported that many water systems, particularly smaller systems, violated monitoring requirements and drinking water standards and that enforcement actions had done little to stop violators or increase compliance.

In 1992, we reported funding shortages at the federal, state, and water system levels to correct problems and disparities between EPA's low funding and the high health and environmental risks from drinking water contamination, according to EPA's Science Advisory Board.
(GAO/RCED-92-184)

This year, we found that the pollution and funding problems persist and reported that EPA was not prepared to take over where state programs fail. We recommended that EPA work with the Congress to better fund the program at a level equal to the high risk to human health and the environment. (GAO/RCED-93-96 and GAO/RCED-93-144)

We continue to highlight the significant gap between available resources and the nation's wastewater treatment needs. We reviewed the state revolving funds program and found that it will not come close to helping the states meet their needs. (GAO/RCED-92-35)

We recommended that EPA improve the financial skills of its regional staff to better help states, use models to better estimate program needs, including nonpoint-source pollution, and work with the Congress to build a strategy to close the resource gap.

Chemical Testing

We found continuing concerns about EPA's ability to assess and safely control chemical substances. (GAO/RCED-91-136)

EPA had no clear objectives and direction for the testing program, reviewed relatively few of the potentially dangerous chemicals, and had issued few regulations since program inception in 1977. We recommended that EPA develop criteria and a methodology for the review process and ensure that EPA regulates chemicals on the basis of the level of risk they impose. While EPA has established a guide to decide whether a chemical presents a significant risk, the agency has not followed with criteria and a methodology to determine if this level of risk warrants regulation.

Pesticides

In 1972, EPA was given the formidable task to reassess all older pesticides on the basis of current scientific standards including those pertaining to

cancer, reproductive disorders and birth defects. Disappointed with EPA's progress, the Congress, in 1988, provided funds for additional resources and mandated that the reassessment be essentially completed by 1998. Our review of the program disclosed that despite increased progress, EPA may not complete this process until 2006. More importantly, EPA has not assessed the high-risk pesticides—those used in high volumes or on food—and they will continue to be used until a risk assessment is completed. We recommended that EPA concentrate on reregistering these pesticides first. (GAO/RCED-93-94)

EPA, in the past, assumed low exposure to lawn care pesticides but now is concerned they may persist in the environment, resulting in higher exposure. We recommended that before re-registering these pesticides, EPA fully explore the health effects from such exposure and give priority to developing the test and assessment guidelines to do so. (GAO/RCED-93-80)

Both EPA and the Food and Drug Administration (FDA) face challenges in controlling the entry of illegal pesticides into the U.S. environment through imported foods. For example, Mexico accounts for nearly one-half of all the fresh and frozen fruits and vegetables that the United States currently imports, and this would increase under an approved North American Free Trade Agreement. Since Mexico does not have a system to test for pesticide residues in food and allows the use of some pesticides that the United States does not, we recommended that EPA and FDA work with Mexican officials to resolve these differences and deal with new changes to pesticide regulations. (GAO/RCED-92-140)

Our work also showed that about one-third of pesticide-tainted shipments of imported food ended up on grocery shelves. We reported similar findings in 1979 and again in 1986. We recommended that FDA take stronger prevention actions, including targeting repeat offenders for penalties, applying more-stringent control over suspect shipments, and using its program resources more effectively. We recommended that, to better achieve this, the Congress authorize the agency to pursue civil administrative penalties against violators. (GAO/RCED-92-205)

Hazardous and Solid Waste Management

EPA's 1992 data showed that owners and operators of hazardous waste treatment, storage, and disposal facilities had begun cleaning up only 5 percent of the more than 3,400 sites that were potentially threatening human health and the environment and that EPA had scarce resources to oversee the cleanup. EPA began a new cleanup approach called stabilization that more quickly mitigates the threats from waste facilities.

We recommended that the agency improve its data management system to measure its progress in stabilizing facilities, recover its oversight costs from site owners and operators, and update the program's long-term cost and schedule estimates for the Congress. (GAO/RCED-93-15)

The Congress, in 1976, tried to encourage new markets for recovered materials by directing federal agencies to purchase items composed of such materials. The agencies have made little progress. EPA has been slow to define which recovered products agencies should purchase and which purchasing practices they should follow. The Department of Commerce has done little to promote commercial use of proven recovery technology. Until recently, program leaders have not encouraged agencies to buy more recovered products. Consequently, we recommended that (1) the Congress clarify the authority agencies have to give products containing recovered materials price preferences while avoiding unreasonable prices, (2) EPA complete its strategy for developing procurement guidelines, (3) Commerce work to stimulate the demand for recovered materials, and (4) the Office of Management and Budget ensure that agencies set goals and make progress and incorporate program requirements into other governmentwide procurement policies. (GAO/RCED-93-58)

Hazardous Waste Cleanup

Under Superfund, parties that contaminate sites either clean up the sites or reimburse the government for its cleanup costs. We found that EPA had a low record of cost recovery; was not measuring the success of its negotiations with responsible parties; and was not documenting reasons for important negotiation decisions, such as less than full settlements. (GAO/RCED-91-144 and GAO/HRD-93-10)

Although EPA has proposed some regulatory changes to increase recoveries, to date the agency has not implemented our recommendations. We recommended that, to increase cost recovery, the Congress permit EPA to recover greater amounts of interest and require it to measure how well it performed with settlements.

Although property and casualty insurance companies are concerned that their potentially high liability for cleanup costs could render them insolvent, we found they were not complying with Securities and Exchange Commission (SEC) requirements to disclose "material" environmental liabilities to investors. (GAO/RCED-93-108)

We recommended the SEC Chair revise agency guidance to specify that insurance companies routinely disclose in their annual reports (1) the

number and type of environmental claims and (2) an estimated range or minimum amount of associated claims costs and expenses.

Cleanup at Federal Facilities

The federal government now owns many abandoned hazardous waste sites and faces significant cleanup funding liabilities. We reported that EPA and other federal agencies had not met statutory deadlines to determine whether federally-owned hazardous waste sites were so badly contaminated that agencies should conduct the cleanup under EPA's Superfund program. (GAO/RCED-93-119)

The backlog of sites not evaluated is growing and could take EPA a decade to assess, increasing risks and costs. EPA has not yet implemented our recommendation that it develop a plan to complete the evaluation of federal facilities.

In reviewing cleanup at Department of Defense (DOD) waste sites, we recommended that DOD more quickly test for leaks in its underground storage tanks, upgrade existing tanks, permanently close tanks that were out of service for more than a year, and determine if they had caused contamination. (GAO/NSIAD-92-117)

As a result, DOD has begun to reevaluate its guidance on storage tank maintenance. We also found problems with DOD's management of contractor costs for hazardous waste cleanups. DOD does not routinely obtain and review the contractors' cleanup cost projections, and it has paid contractors profits as part of their reimbursement for cleanup costs. We questioned some of DOD's practices in directly paying contractors. These are independent DOD contractors that are responsible for the site contamination and are required to clean up the sites by EPA and the states. We recommended that DOD review its contractor reimbursement practices and implement revised guidance to correct concerns. (GAO/NSIAD-93-77)

Environmental Enforcement Policies and Practices

EPA does not apply its policy to penalize a company that significantly violates environmental laws and regulations an amount equal to the benefits the company would realize by not complying with these controls. Reasons include different enforcement philosophies, budgetary pressures to settle cases quickly, and concerns about jeopardizing local businesses. We recommended a number of actions that EPA could take to better oversee state and regional penalty practices and to better ensure accountability for following the agency's penalty policies. (GAO/RCED-91-166)

Subsequently, we made recommendations to correct insufficient or inconsistent program controls and the low priority placed on data quality assurance, which prevented EPA and the states from effectively ensuring that (1) dischargers reported accurate compliance monitoring data and (2) the states identified all facilities subject to regulation. (GAO/RCED-93-21)

**Related Products With
Open Recommendations:
Environmental Protection**

Product Title

Air Pollution: Difficulties in Implementing a National Air Permit Program
(GAO/RCED-93-59)

Air Pollution: Impact of White House Entities on Two Clean Air Rules
(GAO/RCED-93-24)

Air Pollution: State Planning Requirements Will Continue to Challenge EPA and the States (GAO/RCED-93-113)

Air Pollution: Unresolved Issues May Hamper Success of EPA's Proposed Emissions Program (GAO/RCED-92-288)

Asbestos in Federal Buildings: Federal Efforts to Protect Employees From Potential Exposure (GAO/RCED-93-9)

Asbestos Removal and Disposal: EPA Needs to Improve Compliance With Its Regulations (GAO/RCED-92-83)

Biological Warfare: Role of Salk Institute in Army's Research Program
(GAO/NSIAD-92-33)

Cleanup Technology: Better Management for DOE's Technology Development Program (GAO/RCED-92-145)

Coast Guard: Coordination and Planning for National Oil Spill Response
(GAO/RCED-91-212)

Coast Guard: Inspection Program Improvements Are Under Way to Help Detect Unsafe Tankers (GAO/RCED-92-23)

Coast Guard: Oil Spills Continue Despite Waterfront Facility Inspection Program (GAO/RCED-91-161)

Department of Energy: Cleaning Up Inactive Facilities Will Be Difficult (GAO/RCED-93-149)

Disinfectants: EPA Lacks Assurance They Work (GAO/RCED-90-139)

DOE Management: Impediments to Environmental Restoration Management Contracting (GAO/RCED-92-244)

Drinking Water: Consumers Often Not Well-informed of Potentially Serious Violations (GAO/RCED-92-135)

Drinking Water: Inadequate Regulation of Home Treatment Units Leaves Consumers at Risk (GAO/RCED-92-34)

Drinking Water: Key Quality Assurance Program Is Flawed and Underfunded (GAO/RCED-93-97)

Drinking Water Program: States Face Increased Difficulties in Meeting Basic Requirements (GAO/RCED-93-144)

Drinking Water: Projects That May Damage Sole Source Aquifers Are Not Always Identified (GAO/RCED-93-4)

Drinking Water: Safeguards Are Not Preventing Contamination From Injected Oil and Gas Wastes (GAO/RCED-89-97)

Drinking Water: Stronger Efforts Needed to Protect Areas Around Public Wells From Contamination (GAO/RCED-93-96)

Drinking Water: Widening Gap Between Needs and Available Resources Threatens Vital EPA Program (GAO/RCED-92-184)

Environmental Cleanup: Observations on Consistency of Reimbursements to DOD Contractors (GAO/NSIAD-93-77)

Environmental Enforcement: EPA Cannot Ensure the Accuracy of Self-Reported Compliance Monitoring Data (GAO/RCED-93-21)

Environmental Enforcement: EPA Needs a Better Strategy to Manage Its Cross-Media Information (GAO/IMTEC-92-14)

Environmental Enforcement: Penalties May Not Recover Economic Benefits Gained by Violators (GAO/RCED-91-166)

Environmental Liability: Property and Casualty Insurer Disclosure of Environmental Liabilities (GAO/RCED-93-108)

Environmental Protection Agency: Plans in Limbo for Consolidated Headquarters Space (GAO/GGD-93-84)

Environmental Protection Agency: Protecting Human Health and the Environment Through Improved Management (GAO/RCED-88-101)

Environmental Protection: EPA's Plans to Improve Longstanding Information Resources Management Problems (GAO/AIMD-93-8)

Environmental Protection: Meeting Public Expectations With Limited Resources (GAO/RCED-91-97)

Environmental Protection: Solving NASA's Current Problems Requires Agencywide Emphasis (GAO/NSIAD-91-146)

Environment, Safety, and Health: Environment and Workers Could Be Better Protected at Ohio Defense Plants (GAO/RCED-86-61)

EPA's Superfund TAG Program: Grants Benefit Citizens But Administrative Barriers Remain (GAO/T-RCED-93-1)

Financial Audit: EPA's Financial Statements for Fiscal Years 1988 and 1987 (GAO/AFMD-90-20)

Fossil Fuels: Improvements Needed in DOE's Clean Coal Technology Program (GAO/RCED-92-17)

Fossil Fuels: Ways to Strengthen Controls Over Clean Coal Technology Project Costs (GAO/RCED-93-104)

General Services Administration: Efforts to Communicate About Asbestos Abatement Not Always Effective (GAO/GGD-92-28)

Guidelines Needed for EPA's Tolerance Assessments of Pesticide Residues in Food (GAO/T-RCED-89-35)

Hazardous Materials: Upgrading of Underground Storage Tanks Can Be Improved to Avoid Costly Cleanups (GAO/NSIAD-92-117)

Hazardous Waste: Data Management Problems Delay EPA's Assessment of Minimization Efforts (GAO/RCED-91-131)

Hazardous Waste Exports: Data Quality and Collection Problems Weaken EPA Enforcement Activities (GAO/PEMD-93-24)

Hazardous Waste: Impediments Delay Timely Closing and Cleanup of Facilities (GAO/RCED-92-84)

Hazardous Waste: Limited Progress in Closing and Cleaning Up Contaminated Facilities (GAO/RCED-91-79)

Hazardous Waste: Management Problems Continue at Overseas Military Bases (GAO/NSIAD-91-231)

Hazardous Waste: Much Work Remains to Accelerate Facility Cleanups (GAO/RCED-93-15)

Hazardous Waste: New Approach Needed to Manage the Resource Conservation and Recovery Act (GAO/RCED-88-115)

Hazardous Waste: U.S. and Mexican Management of Hazardous Waste From Maquiladoras Hampered by Lack of Information (GAO/T-RCED-92-22)

Improvements Needed in the Environmental Protection Agency's Testing Programs for Radon Measurement Companies (GAO/T-RCED-90-54)

Indoor Air Pollution: Federal Efforts Are Not Effectively Addressing a Growing Problem (GAO/RCED-92-8)

International Environment: Strengthening the Implementation of Environmental Agreements (GAO/RCED-92-188)

Lawn Care Pesticides: Reregistration Falls Further Behind and Exposure Effects Are Uncertain (GAO/RCED-93-80)

Medical Waste Regulation: Health and Environmental Risks Need to Be Fully Assessed (GAO/RCED-90-86)

Natural Resources Restoration: Use of Exxon Valdez Oil Spill Settlement Funds (GAO/RCED-93-206BR)

Nonagricultural Pesticides: Risks and Regulation (GAO/RCED-86-97)

Nonhazardous Waste: Environmental Safeguards for Industrial Facilities Need to Be Developed (GAO/RCED-90-92)

Nuclear Energy: Environmental Issues at DOE's Nuclear Defense Facilities (GAO/RCED-86-192)

Nuclear Health and Safety: More Can Be Done to Better Control Environmental Restoration Costs (GAO/RCED-92-71)

Nuclear Waste: Changes Needed in DOE User-Fee Assessments to Avoid Funding Shortfall (GAO/RCED-90-65)

Nuclear Waste: Development of Casks for Transporting Spent Fuel Needs Modification (GAO/RCED-92-56)

Nuclear Waste: DOE's Repository Site Investigations, a Long and Difficult Task (GAO/RCED-92-73)

Nuclear Waste: Improvements Needed in Monitoring Contaminants in Hanford Soils (GAO/RCED-92-149)

Nuclear Waste: Operation of Monitored Retrievable Storage Facility Is Unlikely by 1998 (GAO/RCED-91-194)

Nuclear Waste: Status of Actions to Improve DOE User-Fee Assessments (GAO/RCED-92-165)

Occupational Safety and Health: Penalties for Violations Are Well Below Maximum Allowable Penalties (GAO/HRD-92-48)

Ozone-Depleting Chemicals: Increased Priority Needed If DOD Is to Eliminate Their Use (GAO/NSIAD-92-21)

Pesticide Monitoring: FDA's Automated Import Information System Is Incomplete (GAO/RCED-92-42)

Pesticides: A Comparative Study of Industrialized Nations' Regulatory Systems (GAO/PEMD-93-17)

Pesticides: Adulterated Imported Foods Are Reaching U.S. Grocery Shelves (GAO/RCED-92-205)

Pesticides: Better Data Can Improve the Usefulness of EPA's Benefit Assessments (GAO/RCED-92-32)

Pesticides: Comparison of U.S. and Mexican Pesticide Standards and Enforcement (GAO/RCED-92-140)

Pesticides: EPA Could Do More to Minimize Groundwater Contamination (GAO/RCED-91-75)

Pesticides: EPA's Formidable Task To Assess and Regulate Their Risks (GAO/RCED-86-125)

Pesticides: Export of Unregistered Pesticides Is Not Adequately Monitored by EPA (GAO/RCED-89-128)

Pesticides: Food Consumption Data of Little Value to Estimate Some Exposures (GAO/RCED-91-125)

Pesticides: Information Systems Improvements Essential for EPA's Reregistration Efforts (GAO/IMTEC-93-5)

Pesticides: Issues Concerning Pesticides Used in the Great Lakes Watershed (GAO/RCED-93-128)

Pesticides: Need To Enhance FDA's Ability To Protect the Public From Illegal Residues (GAO/RCED-87-7)

Pesticides: Pesticide Reregistration May Not Be Completed Until 2006 (GAO/RCED-93-94)

Pollution From Pipelines: DOT Lacks Prevention Program and Information for Timely Response (GAO/RCED-91-60)

Radioactive Waste: EPA Standards Delayed by Low Priority and Coordination Problems (GAO/RCED-93-126)

Radon Testing in Federal Buildings Needs Improvement and HUD's Radon Policy Needs Strengthening (GAO/T-RCED-91-48)

Solid Waste: Federal Program to Buy Products With Recovered Materials Proceeds Slowly (GAO/RCED-93-58)

Superfund: Backlog of Unevaluated Federal Facilities Slows Cleanup Efforts (GAO/RCED-93-119)

Superfund: Cleanups Nearing Completion Indicate Future Challenges (GAO/RCED-93-188)

Superfund: EPA Action Could Have Minimized Program Management Costs (GAO/RCED-93-136)

Superfund: EPA Cost Estimates Are Not Reliable or Timely (GAO/AFMD-92-40)

Superfund: EPA Needs to Better Focus Cleanup Technology Development (GAO/T-RCED-92-92)

Superfund: More Settlement Authority and EPA Controls Could Increase Cost Recovery (GAO/RCED-91-144)

Superfund: Problems With the Completeness and Consistency of Site Cleanup Plans (GAO/RCED-92-138)

Sustainable Agriculture: Program Management Accomplishments and Opportunities (GAO/RCED-92-233)

Toxic Chemicals: EPA's Toxic Release Inventory Is Useful but Can Be Improved (GAO/RCED-91-121)

Toxic Substances: EPA's Chemical Testing Program Has Not Resolved Safety Concerns (GAO/RCED-91-136)

Water Pollution: Pollutant Trading Could Reduce Compliance Costs If Uncertainties Are Resolved (GAO/RCED-92-153)

Water Pollution: Serious Problems Confront Emerging Municipal Sludge Management Program (GAO/RCED-90-57)

Water Pollution: State Revolving Funds Insufficient to Meet Wastewater Treatment Needs (GAO/RCED-92-35)

Water Pollution: Stronger Efforts Needed by EPA to Control Toxic Water Pollution (GAO/RCED-91-154)

Workplace Accommodation: EPA's Alternative Workspace Process Requires Greater Managerial Oversight (GAO/GGD-92-53)

Food and Agriculture Issue Area (Budget Function 350)

GAO Contact: John W. Harman, 202/512-5138

Impact of GAO's Work

With the third largest civilian agency budget in the federal government, the U.S. Department of Agriculture (USDA) affects the lives of all Americans and millions of people around the world. USDA oversees a food and agriculture sector of major importance to the nation's economy, accounting for 17 percent of the gross national product, 20 million jobs, and 10 percent of export dollars. To carry out its missions in 1992, USDA spent about \$60 billion. USDA controlled assets of about \$140 billion and employed or paid the salaries of about 124,000 full-time staff in about 15,000 locations worldwide.

In 1993, congressional committees made extensive use of our work and, on the basis of our recommendations, USDA has made a number of program changes resulting in more effective use of federal food and agriculture funds.

USDA Management

One of our major efforts in 1993 was providing information and support for ongoing congressional and administration efforts to reinvent government. As a result of our management reviews of USDA, and subsequent followup, Senate and House committees held hearings on streamlining USDA and its field structure. Our work contributed to helping the Clinton administration frame the debate for reforming, streamlining, and reinventing USDA and, more specifically, to the Secretary's proposals to create a single farm service agency and significantly reduce the field office structure. Similarly, it formed the basis of several congressional initiatives toward this same end.

Farm Programs

Our analyses of farm program flexibility provisions adopted in the 1990 farm bill contributed to a \$1 billion annual savings. Analysis of the Farmers Home Administration's (FmHA) farm loan programs warned the Congress that billions of federal dollars were at risk if current lending practices continued. Analyses of the crop insurance and disaster assistance programs contributed to congressional debate and proposed reform legislation.

Agriculture Markets

Analyses of milk-pricing mechanisms, livestock markets, and safety and quality of agriculture products and food resulted in hearings, proposed legislation, and agency actions to improve the overall fairness of the

markets and attention to the need to reform the fragmented food inspection system. Our analyses of milk, imported cheese, bottled water, imported Canadian meat, animal drugs, and salmonella in eggs resulted in program improvements. The Food and Drug Administration began a training program for reviewers of data used to support regulatory decisions. USDA revised its inspection of imported Canadian meat. Our comprehensive evaluation of the federal food safety inspection system found that it was inconsistent, inefficient, and ineffective. We advised the Congress that after nearly a century of piecemeal fixes, a major restructuring of the fragmented inspection system—to a uniform, risk-based system—was needed.

Key Open Recommendations

Problems in USDA Structure and Systems

The USDA of 1993 is largely the product of 1930s programs, structures, and management systems. It is an organizational behemoth of more than 110,000 employees that is ill suited to confronting today's issues. A fundamental reevaluation and wholesale revamping is in order. The starting point in this reinvention process is consensus agreement on USDA's primary mission.

In a series of reports on the management of USDA, we noted structural problems that, if addressed, could lead to greater efficiency, effectiveness, and cost savings. A key issue is the independence of the major component agencies of USDA, each established in response to a separate legislative mandate. Because these agencies have historically established their own information, financial, and human resources management systems to address legislative mandates, efficiencies have not been achieved departmentwide. With these systems, the Department is data rich, but information poor, making it difficult for the Secretary to make informed decisions. Furthermore, weaknesses in financial management systems and internal and accounting controls substantially increase the risk of mismanagement, fraud, waste, and abuse in Department programs.

Because each component agency has its own systems, USDA has difficulty in dealing with issues that cut across its traditional, production-based organizational structure. For example, nine USDA agencies and offices have responsibilities for biotechnology issues. Numerous conflicts among these agencies have blocked development of a single strategy in this important area.

Nowhere is the struggle to get a handle on the structural and management systems problems more apparent than in the operations of USDA's farm service agencies' field offices. Multiple agencies operate independent field offices all over the country, often right next door to each other. Weaknesses in information systems—different and incompatible hardware, software, telecommunications, and data bases—are important obstacles to any reform of the farm service agencies.

We made a number of recommendations specific to departmental structures and strategies that would result in needed improvement. We also recommended that farm agencies' field structure be given a major overhaul; management of cross-cutting agricultural issues be improved; management systems—financial, informational, and human resource—be strengthened; and USDA be revitalized to meet new challenges and increased responsibilities in nutrition, international trade, and resource conservation issues.

Recent progress toward streamlining USDA field structure is very encouraging, and cost savings should be significant. In September 1993, Agriculture Secretary Mike Espy announced a plan to close some farm agency offices and consolidate farm agencies into a single farm agency. He also announced a plan to streamline headquarters. Further details of the Department's reorganization plan are expected. The Under Secretary of Agriculture has said that the reorganization will take a few years.

But the fundamental problem remains: How to revitalize USDA so that it is efficient and effective into the 21st century. To achieve this goal, a thorough review of USDA's mission and a corresponding restructuring is now necessary. The Congress and the administration need to develop a consensus on USDA's mission. Once developed, the mission statement must be continually reassessed and updated to address changing conditions, and the Secretary will need to develop measurable departmental goals. (GAO/IMTEC-93-20, GAO/RCED-91-49, GAO/RCED-91-41, and GAO/RCED-91-9)

Challenges Facing USDA in Shifting Farm Programs Toward More Market Orientation

We believe that USDA commodity programs need to move toward a global market orientation. Our work focused on revamping the agricultural farm, export, and market development programs to help make them more competitive in the global marketplace. Our analyses of farm program flexibility provisions adopted in the 1990 farm bill contributed to \$900 million savings in 1992 and \$1.25 billion a year in fiscal years 1993-95.

The Congress may wish to re-evaluate USDA's support programs in several areas because current subsidies provide incentives to serve relatively rigid government objectives rather than leverage flexible sector development of new products, services, and markets. We have reviewed the sugar, peanuts, wool and mohair, honey, and dairy programs and recommended that they be reviewed for possible policy changes.

Regarding the sugar program, we recommended that the Congress consider legislation that would move the sugar industry toward a more open market. As part of this transition, the market price for sugar should be lowered. The Congress should gradually lower the loan rate for sugar and direct USDA to adjust import quotas accordingly.

On the peanut program, economic studies and our analysis show that the peanut program adds \$314 million to \$513 million each year to consumers' costs of buying peanuts. At the same time, USDA spends tens of millions of dollars each year to run the peanut program, make mandatory payments to producers, and cover the high cost of peanut products it buys under various food assistance programs. Finally, the program, by boosting the volume of U.S. peanuts available for export, may be lowering prices paid for peanuts abroad. (GAO/RCED-93-84 and GAO/RCED-93-18)

Problems Facing the Farmers Home Administration

FmHA is not adequately protecting the multibillion-dollar federal investment in farmer loan programs. In April 1992, we reported that, as of September 1990, more than two-thirds of the outstanding \$19.5 billion direct loan portfolio was at risk because it was held by delinquent borrowers or borrowers whose debts had been restructured in response to past repayment difficulties. This high level of risk existed even though FmHA had forgiven \$4.5 billion in direct loan debt during 1989 and 1990. By June 1992, FmHA forgave an additional \$3.1 billion in direct loan obligations. As these large loan losses have accumulated, FmHA has evolved into a continuous source of subsidized credit for nearly half of its borrowers. Ironically, the financial condition of some of these borrowers has actually deteriorated because of repeated loan servicing, which has increased their debt and reduced their equity.

A number of factors have contributed to FmHA's problems. Although some of these factors—such as the decline of the agricultural economy—are beyond the immediate control of either the Congress or FmHA, two are not. First, lending officials in FmHA's field offices often fail to follow the agency's own standards for making loans, servicing loans, and managing property. For example, FmHA requires that a borrower's existing debts be

verified during the loan approval process. But, during the first three quarters of fiscal year 1992, FmHA internal reviews showed that debts had not been verified for 20 percent of the loans sampled.

Second, certain FmHA or congressionally authorized loan-making, loan-servicing, and property management policies themselves increase the agency's vulnerability to loss. More specifically:

- Borrowers who have defaulted on past loans are free to obtain new loans.
- Under a congressionally directed policy, borrowers may obtain new FmHA direct loans for operating expenses without demonstrating the ability to repay their existing debt.
- Private lenders may use guaranteed loans to refinance existing customers' debts, thereby shifting to the federal government most of the risk of their loans to financially stressed borrowers.
- The servicing policies of the Agricultural Credit Act of 1987 run counter to principles of sound financial management. The act allows debt write-down for borrowers whose loans are restructured and debt writeoff for those whose loans do not qualify for restructuring. These policies have cost taxpayers billions of dollars over the last several years and provide incentives for farmers to default intentionally on their loans in order to qualify for debt reduction.
- Legislation requiring FmHA to sell acquired properties at fixed prices, rather than to the highest bidder, and to a selected group of potential purchasers, often the previous owners, has limited FmHA's return on these properties and increased its holding costs.

We have made numerous recommendations to the Congress and the Secretary of Agriculture that are aimed at (1) improving compliance with loan standards and (2) strengthening policies and program design for direct loans, guaranteed loans, and acquired farm property.

More broadly, we have called for the Congress to clarify FmHA's role and mission, noting that FmHA's attempts to operate simultaneously as a fiscally prudent lender and as a temporary assistance agency have not worked. (GAO/RCED-93-28 and GAO/RCED-92-86)

Problems Facing the Federal
Food Safety System

The federal system to ensure the safety and the quality of the nation's food—at an annual cost of \$1 billion a year—is inefficient and outdated and does not adequately protect the consumer against food-borne illness.

The food safety inspection system suffers from overlapping and duplicative inspections, poor coordination, inefficient allocation of resources, and outdated inspection procedures. As many as 12 different agencies administering over 35 different laws oversee food safety inspection. More specifically:

- Food establishments may be inspected by more than one federal agency because they process foods that are regulated under different federal laws or because they participate in voluntary inspection or grading service programs.
- Agencies do not always notify one another when they identify problems or, once a referral is made, do not always promptly investigate identified problems. As a result, unsanitary plants continue operations and firms market contaminated foods.
- Federal agencies responsible for food safety and quality inspections could use their resources more efficiently by basing inspection frequencies on risk.
- The federal meat and poultry inspection system follows procedures no longer appropriate for today's food safety risks. The system relies on inspectors' sense of sight, smell, and touch to ensure wholesome product. But, inspectors cannot see, smell, or feel microbial pathogens, which are widely regarded as the principal risk associated with meat and poultry.

We have not estimated the cost savings that would result from a revamped food safety system and the elimination of inefficient inspection practices. Instead, we have emphasized the need to modernize inspection procedures and tie resource allocation to health risks.

We believe that improved effectiveness, efficiency, and uniformity could be realized by creating a single food safety agency to administer a uniform set of food safety laws based on the principle that the objective of an inspection system is to protect the public from the most serious health risks associated with food-borne hazards. (GAO/T-RCED-93-22, GAO/RCED-92-209, and GAO/RCED-92-152)

Problems Facing Rural America

Billions of federal dollars are spent every year for rural America, but these funds are not addressing the problems of rural areas in a coherent, responsive manner.

In a report on rural development, we noted several basic problems in the federal approach to rural America. First, many of the rural federal assistance programs target agriculture, which is no longer the principal economic base of most rural communities. Today, rural America depends on a broad mix of manufacturing and service industries, as well as agriculture. In 1990, only about 22 percent of the nation's approximately 2,400 rural counties relied on agriculture as an economic base and only about 6 percent of the rural population lived on farms. Therefore, by focusing on agriculture, the federal government may be missing opportunities for rural development in areas with potentially much greater payoff.

Second, many federal programs that could benefit rural communities do not because they require coordination of expertise and resources, that are often not available in rural communities. A given problem—for example, in obtaining water and sewer funds for an industrial park—may involve multiple agencies, such as the Economic Development Administration, the Department of Housing and Urban Development, and FmHA. Each agency has its own forms and regulations. While urban areas may respond to this complexity of federal programs by dedicating human resources to each agency, rural communities do not have that luxury.

Third, federal programs do not adequately distinguish among communities of different population densities. For example, many federal programs define small communities as those with fewer than 50,000 people—that is, communities of 49,000 are considered identical to those of 1,000 for program benefits and/or mandates. The needs and the administrative capabilities of a community of 49,000, however, may be vastly different from those of a community of 1,000.

And, finally, federal programs focus on process rather than effectiveness—they tend to measure effectiveness by numbers served or dollars spent rather than by achievement of program goals. This hinders rural areas in using resources efficiently. (GAO/RCED-92-197)

**Related Products With
Open Recommendations:
Food and Agriculture**

Product Title

**Agriculture Payments: Effectiveness of Efforts to Reduce Farm Payments
Has Been Limited (GAO/RCED-92-2)**

**Biotechnology: Managing the Risks of Field Testing Genetically
Engineered Organisms (GAO/RCED-88-27)**

**Commodity Programs: Should Farmers Grow Income-Supported Crops on
Federal Land? (GAO/RCED-92-54)**

**Crop Insurance Program: Nationwide Computer Acquisition Is
Inappropriate at This Time (GAO/IMTEC-93-20)**

**Dairy Cooperatives: Role and Effects of the Capper-Volstead Antitrust
Exemption (GAO/RCED-90-186)**

**Data Collection: Opportunities to Improve USDA's Farm Costs and Returns
Survey (GAO/RCED-92-175)**

**Early Intervention: Federal Investments Like WIC Can Produce Savings
(GAO/HRD-92-18)**

**Farmers Home Administration: Billions of Dollars in Farm Loans Are at
Risk (GAO/RCED-92-86)**

**Farmers Home Administration: Final Resolution of Farm Loan or Servicing
Appeals (GAO/RCED-93-28)**

**FDA Regulations: Sustained Management Attention Needed to Improve
Timely Issuance (GAO/HRD-92-35)**

**Federal Dairy Programs: Insights Into Their Past Provide Perspectives on
Their Future (GAO/RCED-90-88)**

**Financial Audit: Forest Service's Financial Statements for Fiscal Year 1988
(GAO/AFMD-91-18)**

Food Safety and Quality: FDA Can Improve Monitoring of Imported Cheese
(GAO/RCED-92-210)

Food Safety and Quality: FDA Needs Stronger Controls Over the Approval Process for New Animal Drugs (GAO/RCED-92-63)

Food Safety and Quality: FDA Strategy Needed to Address Animal Drug Residues in Milk (GAO/RCED-92-209)

Food Safety and Quality: Innovative Strategies May Be Needed to Regulate New Food Technologies (GAO/RCED-93-142)

Food Safety and Quality: Limitations of FDA's Bottled Water Survey and Options for Better Oversight (GAO/RCED-92-87)

Food Safety and Quality: Salmonella Control Efforts Show Need for More Coordination (GAO/RCED-92-69)

Food Safety and Quality: Stronger FDA Standards and Oversight Needed for Bottled Water (GAO/RCED-91-67)

Food Safety and Quality: Uniform, Risk-based Inspection System Needed to Ensure Safe Food Supply (GAO/RCED-92-152)

Food Safety and Quality: USDA Improves Inspection Program for Canadian Meat, but Some Concerns Remain (GAO/RCED-92-250)

Food Safety: Building a Scientific, Risk-Based Meat and Poultry Inspection System (GAO/T-RCED-93-22)

Foreign Farm Workers in U.S.: Department of Labor Action Needed to Protect Florida Sugar Cane Workers (GAO/HRD-92-95)

Forest Service Needs to Improve Efforts to Protect the Government's Financial Interests and Reduce Below-Cost Timber Sales (GAO/T-RCED-91-42)

Freedom of Information: FDA's Program and Regulations Need Improvement (GAO/HRD-92-2)

Guidelines Needed for EPA's Tolerance Assessments of Pesticide Residues in Food (GAO/T-RCED-89-35)

International Trade: Agricultural Trade Offices' Role in Promoting U.S. Exports Is Unclear (GAO/NSIAD-92-65)

Milk Pricing: New Method for Setting Farm Milk Prices Needs to Be Developed (GAO/RCED-90-8)

Peanut Program: Changes Are Needed to Make the Program Responsive to Market Forces (GAO/RCED-93-18)

Pesticides: Adulterated Imported Foods Are Reaching U.S. Grocery Shelves (GAO/RCED-92-205)

Pesticides: Comparison of U.S. and Mexican Pesticide Standards and Enforcement (GAO/RCED-92-140)

Pesticides: Food Consumption Data of Little Value to Estimate Some Exposures (GAO/RCED-91-125)

Rangeland Management: BLM Efforts to Prevent Unauthorized Livestock Grazing Need Strengthening (GAO/RCED-91-17)

Rural Development Administration: Patterns of Use in the Business and Industry Loan Guarantee Program (GAO/RCED-92-197)

Social Security: Need for Better Coordination of Food Stamp Services for Social Security Clients (GAO/HRD-92-92)

Sugar Program: Changing Domestic and International Conditions Require Program Changes (GAO/RCED-93-84)

Sustainable Agriculture: Program Management Accomplishments and Opportunities (GAO/RCED-92-233)

Truck Transport: Little Is Known About Hauling Garbage and Food in the Same Vehicles (GAO/RCED-90-161)

U.S. Department of Agriculture: Farm Agencies' Field Structure Needs Major Overhaul (GAO/RCED-91-9)

U.S. Department of Agriculture: Improving Management of Cross-Cutting Agricultural Issues (GAO/RCED-91-41)

Chapter 2
Improving Resources, Community, and
Economic Development Programs

U.S. Department of Agriculture: Interim Report on Ways to Enhance
Management (GAO/RCED-90-19)

U.S. Department of Agriculture: Need for Improved Workforce Planning
(GAO/RCED-90-97)

U.S. Department of Agriculture: Strengthening Management Systems to
Support Secretarial Goals (GAO/RCED-91-49)

Housing and
Community
Development Issue
Area (Budget
Functions 370 and
450)

GAO Contact: Judy A. England-Joseph, 202/512-7631

Impact of GAO's Work

Federal housing and community development efforts focus on two related goals: (1) providing safe, affordable, and decent housing to all Americans and (2) supporting and revitalizing economically depressed communities. While our nation is generally considered to have the best-housed people in the world, a host of economic and social problems have thus far denied full attainment of our national housing goals. These problems are reflected in the widening gap between the demand for and the supply of affordable low-income housing; declining rates of homeownership, particularly among younger families; and continued problems with homelessness. Contributing to these problems is the spread of economically distressed communities and their attendant high unemployment rates and low family incomes.

To deal with these conditions, the federal government has established a broad array of programs, in several federal agencies, primarily the Department of Housing and Urban Development (HUD), the Department of Veterans Affairs (VA) (through its housing and homelessness programs), the Department of Agriculture (through the Farmers Home Administration [FmHA]), the Department of Commerce (through the Economic Development Administration and the Minority Business Development Agency), the Small Business Administration (SBA), and the Federal Emergency Management Agency (FEMA) (through its disaster assistance and homelessness programs). Together, these agencies had budget authority for over \$30 billion in fiscal year 1993.

Mortgage Assistance

We reviewed the effectiveness of federal efforts to help low- and moderate-income individuals and families purchase homes through direct, insured, and guaranteed loans. Key agencies are the Federal Housing Administration (FHA) and the Government National Mortgage Association (GNMA)—both part of HUD, VA, and FmHA.

We testified on FHA's single-family mortgage insurance fund. We found that the fund was not actuarially sound as of September 1991 and probably did not have adequate capital reserves as of October 1992, although both were required by law. We also found, however, that the fund's actuarial position appeared to be improving.

In the multifamily area, we testified on impediments to disposition of properties owned by HUD. HUD owned about 27,000 units in 1992 and had initiated foreclosure on another 42,000 units. We discussed the reasons for this growing inventory and disclosed that the federal government's costs were the same for holding the inventory or selling it. We concluded that the current situation resulted in HUD's being a landlord for a huge inventory of properties, a role it was never intended to play nor adequately staffed to fulfill.

Also, we reviewed VA's Home Loan Guaranty Program, under which it partially guarantees home loans made to veterans by private sector mortgage lenders. Specifically, we estimated the costs, under different economic scenarios, to the federal government of guaranteeing VA's home mortgage loans and compared our estimates with the administration's estimates. We concluded that the costs to the federal government for fiscal years 1992 and 1993 would probably be about \$300 million lower than the administration estimated. Consequently, program costs are overstated; VA received more in appropriations than it needs to cover these costs; and the federal budget deficit for those years has been increased unnecessarily, although federal borrowing has not been affected.

In addition, we reviewed certain activities of GNMA, which is a secondary mortgage market organization that guarantees securities issued by its approved mortgage originators and backed by pools of mortgage loans insured by HUD's FHA or guaranteed by VA. We provided information on how GNMA has evolved to accomplish its mission, identified recent management problems experienced by GNMA in overseeing its issuers, examined GNMA's response to these problems, and recommended that GNMA be granted greater staffing flexibility to manage its growing workload and respond to changing markets.

Finally, we reported on weaknesses, and recommended improvements, in efforts by HUD, VA, and FmHA to protect children from the potential hazards of lead-based paint poisoning when they sell single-family homes to the public. (The agencies typically acquire such homes when borrowers are

unable to repay home mortgages that an agency insured, guaranteed, or provided.)

In response to our earlier report on ways VA could reduce foreclosure costs in its guaranteed home loan program, VA developed and tested procedures to determine the most cost-effective way of selling properties. These procedures were expected to be implemented nationwide in late 1993. Also, as a result of our earlier report on fraud in the federal multifamily housing mortgage program in New York, the U.S. Attorney has secured four indictments. One real estate developer charged in the case agreed to plead guilty to the charges and pay at least \$500,000 in restitution.

Low-Income Housing

Our work on low-income housing covered such issues as the demographic characteristics of certain housing assistance recipients, funding problems facing one program, efforts to integrate housing assistance with supportive services, and alternative methods of developing public housing. It focused primarily on HUD programs but also dealt with a FmHA program and certain other agencies' efforts.

We continued our work on HUD's section 8 rental assistance program, which provides housing subsidies that allow about 2.8 million low-income households to obtain decent and affordable housing from private owners. HUD provides these subsidies through over 40,000 contracts with state and local agencies and private owners. We provided information on the demographic characteristics of elderly and nonelderly assistance recipients, the quality of the housing units rented by elderly recipients, and the proportion of income that elderly and nonelderly recipients pay for rent. We also analyzed the estimated budget authority that will be needed to renew expiring section 8 contracts for the next 5 years and ways to even out the growth in budget authority to renew contracts.

We also continued our work on self-sufficiency by reporting on HUD's Family Self-Sufficiency Program; this program was established to promote the development of strategies to coordinate housing assistance with public and private supportive services in order to enable lower-income families to achieve economic independence and self-sufficiency. We discussed the program's status and actions by HUD to coordinate its efforts with other federal agencies.

Moreover, we analyzed and testified on two programs, controlled by public housing agencies, that are designed to develop housing for

low-income households—the Low-Income Housing Tax Credit Program, which is supported by federal tax expenditures, and the Public Housing Development Program, which is supported by federal grants. We provided information on the characteristics of the tenants served and the projects developed, analyzed costs to the federal government, and described public housing authorities' experiences with both programs.

In addition, we reviewed the rural single-family housing program administered by FmHA, through which home loans are provided to rural residents who cannot afford to become homeowners through private financing. We found that rural counties in and around metropolitan areas received a disproportionately high share of program funds and, conversely, that remote rural areas received a disproportionately low share of program funds.

Finally, we reported on the status of the 19 programs authorized by the McKinney Act to help the homeless. These programs are implemented by HUD, VA, FEMA, and other federal agencies.

As a result of our earlier work on the difficulties of housing persons with mental disabilities with the elderly, the Congress—in the Housing and Community Development Act of 1992—authorized public housing agencies to provide public housing designated for only the elderly. In the same act, the Congress authorized FHA to develop and conduct risk-sharing credit enhancement demonstration programs and authorized the creation of a task force to begin developing a national data base on the performance of multifamily housing loans. Both actions are consistent with, and largely attributable to, our testimonies of these subjects.

In response to our work on the need for better guidance on FmHA rural rental housing, FmHA issued regulations in July 1993 and instructions in August 1993 to correct the problems we had identified. Moreover, in response to our testimony on excessive profits and program abuses in FmHA's rural rental housing program, FmHA increased, from 3 percent to 5 percent, the amount of equity a developer must commit to financing a project. This will effectively increase, by at least \$10 million, the funding available to finance such rural housing units.

Finally, in response to our earlier report on single-room occupancy projects for the homeless, HUD issued regulations in 1993 that should help ensure that such projects are financially feasible. These regulations also

eliminate the required use of public housing agency waiting lists for selecting residents.

Community Development

Our work on community development considered three types of federal help to rebuild and strengthen communities: (1) financial and other assistance to small business; (2) economic development; and (3) disaster assistance, to aid communities and residents devastated by natural disasters.

In the small business area, we reviewed three SBA efforts. We found that its minority business development program continued to be troubled. (We had previously reported in January 1992 on this program, which is designed to assist small businesses that are owned and controlled by socially and economically disadvantaged persons to develop into viable competitors in the commercial marketplace.) Also, we reported on the financial health of small business investment companies, which help small businesses by providing financing to start, maintain, and expand operations. We focused primarily on why these investment companies experienced substantial losses and had been liquidated by SBA. Finally, we examined a provision that authorized nonprofit agencies employing persons with disabilities to compete for small business set-aside contracts awarded by federal agencies. We found that the nonprofit agencies seldom sought such contracts, receiving less than 1 percent of all federal contracts set aside for small businesses during the period reviewed and recommended that the Congress change the law to remove impediments to program participation.

In the economic development area, we examined the benefits provided by small-issue industrial development bonds. These bonds, issued by state and local government authorities, are intended to help finance the creation and the expansion of manufacturing facilities. The federal government forgoes tax revenue of about \$2 billion a year because the interest on such bonds is tax exempt. We concluded that, while these bonds were being used (as required) to finance manufacturing projects, it is questionable whether they achieved other public benefits attributed to them, such as creating jobs, assisting startup companies, and providing aid to economically distressed areas.

In the aftermath of Hurricane Andrew, which leveled much of south Florida in August 1992, we reported and testified on improvements needed in the nation's response to catastrophic disasters. The response to Hurricane Andrew marked the first use of the Federal Response Plan, a

cooperative agreement signed by FEMA, 25 other federal agencies, and the American Red Cross. But, the response to Hurricane Andrew revealed inadequacies in the plan. Separately, we reported on actions needed to prevent recurring funding shortfalls in the disaster relief fund, which finances disaster responses.

In response to our 1991 and 1993 reports on disaster assistance, FEMA has taken a number of actions. In response to the former report, FEMA and HUD developed procedures for providing rental housing assistance vouchers to disaster victims. In response to the latter report, FEMA established a Damage Assessment Task Force to identify the capabilities needed to perform assessments and to develop a process for generating assistance requirements. FEMA also issued interim guidelines for assessing damage caused by disaster, directing that assessments be made promptly, and the level and type of assistance needed be specified. Moreover, FEMA enhanced states' flexibility in using FEMA grant funds and established a training and exercise work group to develop new training strategies and exercise programs.

**Key Open
Recommendations**

Because of the questions that surround whether industrial development bonds are achieving the public benefits attributed to them and in view of the tax revenue foregone, we suggested that the Congress either not reauthorize the provision or, as part of a reauthorization, specify requirements to better direct these bonds toward achieving public benefits that would not otherwise result. (GAO/RCED-93-106)

The federal response to Hurricane Andrew revealed weaknesses in the multiagency Federal Response Plan. Improvements are needed regarding the explicit authority provided to federal agencies before areas are declared disaster areas; FEMA's efforts to prepare state and local governments for disasters; and the reliance placed on the Department of Defense to provide food, shelter, and other items on a massive scale. (GAO/T-RCED-93-4, GAO/T-RCED-93-13, GAO/T-RCED-93-20, and GAO/RCED-93-186)

Lead poisoning is one of the most common health problems for our nation's children, with potentially significant effects on intelligence and behavior. Lead-based paint is the most widespread source of exposure to lead for children. Although lead-based paint was not permitted to be used in residential housing after 1978, such paint is still found in many units built earlier. Improvements are needed in federal efforts to protect children in two different circumstances. First, when HUD, VA, and FmHA sell

single-family homes to the public (totaling about 100,00 a year) they need to do a better job of identifying and treating lead-based paint hazards. (GAO/RCED-93-38) Second, about 400,000 children live in federally assisted public housing, and about 60 percent of all public housing units were built before 1978 and may be occupied by families with children. HUD needs to provide greater protection for these children. Also, we suggested that the Congress establish a deadline for HUD and public housing agencies to abate certain lead-paint hazards. (GAO/RCED-93-138)

For its Home Loan Guaranty Program, VA (like other agencies that operate federal credit programs) estimates the subsidy cost associated with the portfolio of new loans it guarantees each year. To do so, it uses an economic model developed by the Office of Management and Budget (OMB). We found that the costs to the federal government will probably be about \$300 million lower than the administration estimated and that VA, therefore, had unnecessarily increased the budget deficit. We recommended that VA and OMB work together to improve their economic model and submit revised subsidy cost estimates. (GAO/RCED-93-173)

Related Products With Open Recommendations: Housing and Community Development

Product Title

Agency for International Development: The Minority Shipping Program Is Constrained by Program Requirements (GAO/NSIAD-92-304)

Disaster Assistance: Federal, State, and Local Responses to Natural Disasters Need Improvement (GAO/RCED-91-43)

Disaster Management: Recent Disasters Demonstrate the Need to Improve the Nation's Response Strategy (GAO/T-RCED-93-4)

Disaster Management: Recent Disasters Demonstrate the Need to Improve the Nation's Response Strategy (GAO/T-RCED-93-20)

Disaster Relief Fund: Actions Still Needed to Prevent Recurrence of Funding Shortfall (GAO/RCED-93-60)

Export Promotion: Problems in the Small Business Administration's Programs (GAO/GGD-92-77)

Farmers Home Administration: Billions of Dollars in Farm Loans Are at Risk (GAO/RCED-92-86)

Government National Mortgage Association: Greater Staffing Flexibility Needed to Improve Management (GAO/RCED-93-100)

Homelessness: Access to McKinney Act Programs Improved but Better Oversight Needed (GAO/RCED-91-29)

Homelessness: Action Needed to Make Federal Surplus Property Program More Effective (GAO/RCED-91-33)

Homelessness: Federal Personal Property Donations Provide Limited Benefit to the Homeless (GAO/RCED-91-108)

Homelessness: Single Room Occupancy Program Achieves Goals, but HUD Can Increase Impact (GAO/RCED-92-215)

Homeownership: Appropriations Made to Finance VA's Housing Program May Be Overestimated (GAO/RCED-93-173)

Housing Programs: VA Can Reduce Its Guaranteed Home Loan Foreclosure Costs (GAO/RCED-89-58)

Industrial Development Bonds: Achievement of Public Benefits Is Unclear (GAO/RCED-93-106)

Lead-Based Paint Poisoning: Children in Public Housing Are Not Adequately Protected (GAO/RCED-93-138)

Lead-Based Paint Poisoning: Children Not Fully Protected When Federal Agencies Sell Homes to Public (GAO/RCED-93-38)

Public and Assisted Housing: Linking Housing and Supportive Services to Promote Self-Sufficiency (GAO/RCED-92-142BR)

Public Housing: Housing Persons With Mental Disabilities With the Elderly (GAO/RCED-92-81)

Radon Testing in Federal Buildings Needs Improvement and HUD's Radon Policy Needs Strengthening (GAO/T-RCED-91-48)

Rental Housing: Housing Vouchers Cost More Than Certificates but Offer Added Benefits (GAO/RCED-89-20)

Rural Development Administration: Patterns of Use in the Business and Industry Loan Guarantee Program (GAO/RCED-92-197)

Small Business: Problems Continue With SBA's Minority Business Development Program (GAO/RCED-93-145)

Technology Transfer: Federal Efforts to Enhance the Competitiveness of Small Manufacturers (GAO/RCED-92-30)

Urban Poor: Tenant Income Misreporting Deprives Other Families of HUD-Subsidized Housing (GAO/HRD-92-60)

Natural Resources Management Issue Area (Budget Function 300)

GAO Contact: James Duffus III, 202/512-7756

Impact of GAO's Work

Natural resources on federal lands are second only to tax receipts in generating revenues for the federal government, totaling almost \$7 billion in fiscal year 1992. But, fiscal year 1993 budget authorities for the three agencies primarily responsible for managing and protecting these resources—the Department of the Interior, the Department of Agriculture's Forest Service, and the U.S. Army Corps of Engineers—were more than double the revenues generated the year before—about \$16.6 billion.

Each year, the federal government acquires additional lands to conserve natural resources and expands the infrastructure of facilities constructed to provide access to or make use of the natural resources on federal lands. Yet, our work over the last several years has shown that the condition of the federal lands continues to deteriorate and that the existing infrastructure on these lands—approaching \$200 billion in value—is in a growing state of disrepair. At the same time, agency staff are being asked to assume increasing responsibilities and to perform more duties. As a result, existing maintenance and reconstruction standards are being compromised and tradeoffs are being made among important yet competing work priorities.

The Congress and the administration now face a difficult choice. They must find new sources of funding for the agencies responsible for managing natural resources or find ways for these agencies to operate more efficiently, or they must make further cutbacks in the agencies' services or standards for maintaining facilities and lands.

Key Open Recommendations

Hardrock Mining on Federal Lands

In March 1989, we recommended that the Congress eliminate the law's patenting provision allowing valuable federal lands to pass into private ownership or, should the Congress decide not to eliminate this provision, amend the law to require that the federal government obtain fair market

value for the land patented. Both the authorizing committees as well as the administration are considering comprehensive mining law revision. (GAO/RCED-89-72)

Federal Water Subsidies

In our October 1989 report and our September 1991 testimony on abuses of federal water subsidies, we recommended that the Congress amend reclamation law to limit federally subsidized water to leased or owned land being operated as one farm. This provision was deleted at the last moment from the 1992 omnibus water bill and has not been reintroduced in this Congress. (GAO/RCED-90-6 and GAO/T-RCED-91-90)

Below-Cost Timber Sales

In April 1991 testimony, we stated that the federal government was not recovering timber sale preparation and administration expenses, resulting in below-cost timber sales, and recommended that the Forest Service do so. We also made three additional recommendations. The Forest Service is considering our recommendations in developing a below-cost policy scheduled for implementation in 1994. (GAO/T-RCED-91-42)

Related Products With Open Recommendations: Natural Resources Management

Product Title

Abandoned Mine Reclamation: Interior May Have Approved State Shifts to Noncoal Projects Prematurely (GAO/RCED-91-162)

Bureau of Reclamation: Central Valley Project Cost Allocation Overdue and New Method Needed (GAO/RCED-92-74)

Bureau of Reclamation: Unauthorized Recreation Facilities at Two Reclamation Projects (GAO/RCED-93-115)

Coastal Barriers: Development Occurring Despite Prohibition Against Federal Assistance (GAO/RCED-92-115)

Drinking Water: Widening Gap Between Needs and Available Resources Threatens Vital EPA Program (GAO/RCED-92-184)

Endangered Species: Factors Associated With Delayed Listing Decisions (GAO/RCED-93-152)

Federal Land Management: The Mining Law of 1872 Needs Revision
(GAO/RCED-89-72)

Federal Land Management: Unauthorized Activities Occurring on
Hardrock Mining Claims (GAO/RCED-90-111)

Federal Lands: Improvements Needed in Managing Short-Term
Concessioners (GAO/RCED-93-177)

Federal Timber Sales: Process for Appraising Timber Offered for Sale
Needs to Be Improved (GAO/RCED-90-135)

Financial Management: BIA Has Made Limited Progress in Reconciling
Trust Accounts and Developing a Strategic Plan (GAO/AFMD-92-38)

Forest Service: Little Assurance That Fair Market Value Fees Are
Collected From Ski Areas (GAO/RCED-93-107)

Forest Service Needs to Improve Efforts to Protect the Government's
Financial Interests and Reduce Below-Cost Timber Sales (GAO/T-RCED-91-42)

Forest Service Timber Sales Program: Questionable Need for Contract
Term Extensions and Status of Efforts to Reduce Costs (GAO/T-RCED-92-58)

Hydroelectric Dams: Issues Surrounding Columbia River Basin Juvenile
Fish Bypasses (GAO/RCED-90-180)

Indian Programs: BIA and Indian Tribes Are Taking Action to Address Dam
Safety Concerns (GAO/RCED-92-50)

Mineral Resources: Federal Helium Purity Should Be Maintained
(GAO/RCED-92-44)

Mineral Resources: Interior's Use of Oil and Gas Development Contracts
(GAO/RCED-91-1)

Mineral Resources: Meeting Federal Needs for Helium (GAO/RCED-93-1)

Mineral Revenues: Progress Has Been Slow in Verifying Offshore Oil and
Gas Production (GAO/RCED-90-193)

National Park Service: Scope and Cost of America's Industrial Heritage Project Need to Be Defined (GAO/RCED-93-134)

Natural Gas Pipelines: Greater Use of Instrumented Inspection Technology Can Improve Safety (GAO/RCED-92-237)

Natural Resources Restoration: Use of Exxon Valdez Oil Spill Settlement Funds (GAO/RCED-93-206BR)

Rangeland Management: BLM Efforts to Prevent Unauthorized Livestock Grazing Need Strengthening (GAO/RCED-91-17)

Rangeland Management: BLM's Hot Desert Grazing Program Merits Reconsideration (GAO/RCED-92-12)

Rangeland Management: BLM's Range Improvement Project Data Base Is Incomplete and Inaccurate (GAO/RCED-93-92)

Rangeland Management: Improvements Needed in Federal Wild Horse Program (GAO/RCED-90-110)

Rangeland Management: Interior's Monitoring Has Fallen Short of Agency Requirements (GAO/RCED-92-51)

Reclamation Law: Changes to Excess Land Sales Will Generate Millions in Federal Revenues (GAO/RCED-90-100)

Trans-Alaska Pipeline: Regulators Have Not Ensured That Government Requirements Are Being Met (GAO/RCED-91-89)

Water Resources: Corps Lacks Authority for Water Supply Contracts (GAO/RCED-91-151)

Water Resources: Federal Efforts to Monitor and Coordinate Responses to Drought (GAO/RCED-93-117)

Water Subsidies: Basic Changes Needed to Avoid Abuse of the 960-Acre Limit (GAO/RCED-90-6)

Water Subsidies: Views on Proposed Reclamation Reform Legislation (GAO/T-RCED-91-90)

Wetlands: The Corps of Engineers' Administration of the Section 404 Program (GAO/RCED-88-110)

Wilderness Preservation: Problems in Some National Forests Should Be Addressed (GAO/RCED-89-202)

Wildlife Management: Problems Being Experienced With Current Monitoring Approach (GAO/RCED-91-123)

Wildlife Protection: Enforcement of Federal Laws Could Be Strengthened (GAO/RCED-91-44)

GAO Contact: Kenneth M. Mead, 202/512-2834

Transportation Issue Area (Budget Function 400)

Impact of GAO's Work

The U.S. transportation sector is being increasingly looked to as a key component in efforts to improve the economy; maintain and enhance U.S. competitiveness in the global marketplace; and serve the growing needs of businesses, industries, and the American public. Comprising diverse elements ranging from air, land, water, and mass transit to pipeline and marine safety; employing about one-tenth of America's work force; and involving, in one way or another, about \$1 in every \$6 of the nation's Gross Domestic Product, the transportation sector provides facilities and services and carries out activities that touch everyone's life.

Although the U.S. transportation system is the world's finest, the transportation sector faces many challenges. Among these are reducing the number of transportation-related fatalities and injuries; restoring the obsolete and deteriorated portions of the transportation infrastructure; and relieving the increasingly congested aviation, highway, and waterway systems. In addition, transportation-related environmental effects and the need to strengthen U.S. transportation to remain competitive globally are of widespread concern. And demands are increasing for more and better public transit and rail service. At the same time, despite increased federal funding over the past several years for transportation activities, severe fiscal constraints require increased reliance on private resources and more efficient use of public resources to meet transportation needs.

As detailed below, this issue area's work, which has included an increasing emphasis on the transportation sector's international and intermodal aspects, has influenced the Congress and the Department of Transportation (DOT) and its agencies to take many actions to improve transportation safety and the efficiency and the effectiveness of transportation policies and programs.

Surface Transportation Safety

Our work over the past several years relating to highway, vehicle, and driver safety has contributed significantly in guiding DOT and congressional actions that helped the nation achieve in 1992 the lowest highway death toll in 31 years. Fewer people—39,235—died in highway crashes in 1992 than in any year since 1961. This decline is especially striking because, compared with 1961, the U.S. population was 38 percent higher in 1992, more than twice as many vehicles were on the road, and Americans drove

almost three times as many miles annually. Among the issues addressed in our past work that contributed to the decline in highway fatalities were minimum drinking laws for drivers under 21; need for more-stringent laws for seat belt and motorcycle helmet use and improved enforcement of these laws; need for passive restraints in light trucks and vans; and improvements in monitoring and regulating commercial vehicles, commercial drivers, and motor vehicles.

Our work also influenced congressional decisions and agency actions related to railroad and pipeline safety. For example, regarding railroad hours of service, our work showed that the Congress did not need to change the law setting 12 hours as the maximum number of hours that engineers may legally work. We did, however, point out that Amtrak needed to improve its training for employees who inspect and maintain rail equipment. Regarding pipeline safety, our conclusion that the potential for pipeline incidents (that is, ruptures and leakages) in the nation's aging natural gas pipelines could be reduced by using instrumented internal inspection technology (smart pigs) was instrumental in the enactment of legislation requiring the Secretary of Transportation to issue regulations prescribing the circumstances under which safety inspections of pipelines must be conducted with instrumented devices.

In other safety-related actions based on our work, DOT expanded its regulation of hazardous materials to include truck, rail, and air shipments of about 520 marine pollutants when packaged in bulk containers, and the Federal Highway Administration (FHWA) developed an action plan to improve the timeliness of its compliance reviews for motor carriers that were previously rated less than satisfactory during safety reviews.

Aviation Safety

The Federal Aviation Administration (FAA) implemented several of our recommendations for improving aviation safety. It (1) completed all required air taxi inspections during fiscal year 1992 and issued guidance to inspectors on the surveillance required for financially distressed airlines; (2) established a tracking system for individuals within or returning to the airline industry who contributed materially to emergency revocations of carrier operating certificates; (3) issued written guidance to improve administration of FAA's airline self-audit and safety-violation-reporting programs and provided additional training to keep inspectors abreast of current policies related to the two programs; and (4) to help ensure successful deployment of the Traffic Alert/Collision Avoidance System, agreed to fully verify and validate all future significant modifications,

effectively involve users and other interested parties in testing modifications, and address all users' concerns.

Regarding international aviation safety issues, we reported on FAA actions needed to harmonize domestic and international aircraft design standards. The export of transport aircraft is the largest positive influence on the U.S. balance of trade. We found that both domestic and foreign aircraft manufacturers could save millions if FAA and European authorities eliminated duplicative tests and analyses as well as differences in their requirements. Boeing and McDonnell Douglas officials confirmed our findings on the eventual cost savings that could result from standardizing aircraft design standards. In addition, we examined FAA's initiative to ensure that foreign governments comply with international safety standards, and we reviewed FAA's oversight of U.S.-registered aircraft operated overseas and the actions needed when such aircraft are returned to domestic operation through lease or sales agreements.

Air Traffic Control Modernization

In prior years, our air traffic control modernization reviews focused on systemic problems in FAA's process of budgeting for and acquiring new systems. Over the past year, our focus shifted to reviewing mission needs analyses that FAA conducts as the starting point for modernization projects and FAA's effectiveness in considering alternative systems to allow aircraft to conduct precision approaches to airports. In line with our recommendations, FAA's new acquisition policies emphasize the need for a thorough mission analysis based on quantitative data as the first step in acquiring new air traffic control systems. This emphasis will reduce the risk of FAA's acquiring new systems that are not the most appropriate and cost-effective solutions to its problems. FAA also included goals in a draft of its air traffic control modernization plan in accordance with our recommendation. As a result, the Congress, the executive branch, and users of the air traffic control system will be better able to gauge FAA's true progress in the modernization program.

Financial, Budgetary, and Management Matters

To improve financial, budgetary, and management activities, DOT and its agencies took a number of actions in line with our recommendations. The Coast Guard established formal training requirements for managers of its major systems acquisition projects. It also prescribed a process for approval of units' morale, welfare, and recreation budgets; established a deadline for budget approval; and required that a morale, welfare, and recreation user survey be administered every 3 years, with the results being used in developing and operating morale, welfare, and recreation activities.

FAA restructured its Facilities and Equipment budget, which funds air traffic control modernization, to more closely link budgets for modernization projects with their actual progress, thus giving decisionmakers in the executive branch and the Congress better information for their budget decisions. In addition, for its safety indicator program, FAA convened a task force of users to help develop the indicators, established a detailed implementation plan, and developed a data validation and standardization process.

In other actions, the Maritime Administration improved its management controls over repossessed vessels; the Federal Transit Administration (FTA) issued clear guidance on intercity bus activities that are eligible for rural transit grants; and DOT improved the timing and content of its written statements on GAO's recommendations. Furthermore, DOT completed departmentwide implementation of its Departmental Accounting and Financial Information System (DAFIS), eliminating all systems that duplicated DAFIS's fund control features. It also completed its 5-year Chief Financial Officer and Information Resource Management Plans, which document DOT's strategy for integrating DAFIS with other systems and its strategy and objectives for addressing shortcomings with DAFIS.

Also in line with our work on financial and budgetary matters, the Congress extended a 2.5-cent portion of the gasoline tax due to expire September 30, 1995, and redirected the revenues from that portion of gasoline tax from the General Fund to the Highway Trust Fund. This action will provide sufficient revenues, according to current projections, to cover the solvency problem that we had projected would occur in the Highway Trust Fund. In addition, to enable a more accurate assessment of the Highway Trust Fund's financial status and to provide an early warning of potential shortfalls in the Fund because of lower fuel tax revenues, the Department of the Treasury commenced quarterly, rather than annual, reporting of pertinent data on the Fund.

On the basis of our analyses of highway demonstration projects, the House Transportation Appropriations Subcommittee proposed rescinding about \$64 million for projects that (1) were complete but for which authorizations were unspent, (2) were authorized in 1987 but for which no funds had been obligated, and (3) were a low state priority and for which only a small percentage of authorized funding had been obligated. Our analyses were also cited by the National Performance Review in discussing its recommendation that funding for all highway demonstration projects be rescinded.

Monetary Benefits

Our work resulted in over \$200 million in budgetary and other savings in the last year or so. In direct response to our analyses of FAA's fiscal year 1993 budget request, the House and Senate Appropriations Committees reduced funding for 19 projects under FAA's Facilities and Equipment request by a total of \$183.7 million. Many of the reductions were based on project delays that removed the need for funding in fiscal year 1993.

Following our recommendations that community housing shortages be documented, that all alternatives to meeting the shortages be analyzed, and that the need for planned housing projects be reevaluated every 2 years until funding becomes available, the Coast Guard improved its procedures for acquiring housing and terminated one planned project estimated to cost \$4.3 million. In addition, after we reported delays in the Coast Guard's meeting Marine Safety Network System project milestones and remaining uncertainties that could substantially affect the system's cost and implementation schedule, the Senate Appropriations Committee decided not to fund the agency's 1993 budget request of \$12.8 million for Marine Safety Network-related activities.

After DOT stepped up its investigations as a result of our finding that airlines had not always complied with consumer protection rules on disclosure of contractual terms, nine major airlines were assessed financial penalties totaling about \$389,000 for violations of consumer notice regulations. DOT expected that this action would provide a strong incentive for future compliance.

Environmentally Related Issues

On the basis of our finding that federal law did not prohibit owners from abandoning vessels in the nation's waterways, the Congress included such a prohibition in the Abandoned Barge Act of 1992. As a result, both the risk of pollutants' being spilled from abandoned vessels and the amount of federal funds spent for cleaning up the spills and barges should be reduced.

Our review of the use of traditional transportation control measures, such as mass transit, ridesharing, and synchronization of traffic lights, to improve mobility and reduce congestion showed that, while such measures have had a modest or an incremental impact on reducing hydrocarbon and carbon monoxide emissions, further research on their effectiveness could enhance the prospects for implementing them. We also found a strong consensus that market-based measures, such as imposition of regional gasoline taxes and motor vehicle emissions fees, might be more effective in reducing automobile use but that they are economically and

politically less acceptable because such measures would directly increase driving costs.

Surface Transportation

Our review of developments in intermodal freight transportation and its potential for relieving the nation's highways of some of the freight burden contributed to initiatives by the Secretary of Transportation for promoting efficient intermodal freight transportation. In addition, our work on highway-financing strategies, transit needs projections, involvement of disadvantaged business enterprises in highway contracting, and FHWA oversight of rental rates for highway construction equipment contributed to improving transportation investment decisionmaking and better oversight to ensure that federal highway dollars are spent effectively.

In line with our suggestions in testimony, the House Transportation Appropriations Subcommittee developed economically based investment criteria that it used to screen proposed highway and transit demonstration projects to help ensure that the projects were good investments of federal transportation dollars. Through a series of testimonies, we also contributed to congressional deliberations on federal involvement in and support for high-speed ground transportation projects.

Competition and Consumer Protection

Our work on air fares at concentrated airports, trucking undercharges, the intercity bus industry, and charter bus regulations contributed to understanding the impacts of deregulation on the nation's transportation industries. Our testimonies on options for addressing the airline industry's financial and competition problems contributed to the deliberations of the Congress and the National Commission to Ensure a Strong Competitive Airline Industry and to development of the Commission's recommendations. Our work on relaxing foreign investment restrictions gave both the Congress and the Commission information on potential benefits and costs and was reflected in the Commission's recommendations.

Key Open Recommendations

Despite the many actions and initiatives taken by the Congress, DOT, and its agencies in response to our recommendations, some important recommendations remain open and warrant priority attention.

Foreign Government's Oversight of Carriers Flying Into the United States

In a report on foreign governments' capabilities to provide adequate oversight of foreign carriers that fly into the United States, we recommended that FAA (1) require its field offices to perform comprehensive inspections of foreign carriers when FAA finds that the

home governments do not comply with international standards and/or becomes aware of serious safety problems, (2) give priority to assessing the oversight capabilities of those countries that FAA determines have one or more carriers with serious safety problems, and (3) promptly notify all relevant field offices of serious safety concerns about foreign carriers. (GAO/RCED-93-42)

Flammability Standards for
Aircraft Cabin Interiors

In reporting on the extent to which the U.S. aircraft fleet meets FAA's flammability standards for cabin interiors, we recommended that FAA determine whether to issue a regulation mandating a specific date for all aircraft in the domestic fleet to comply with the latest flammability standards. (GAO/RCED-93-37)

FAA Oversight of
U.S.-Registered Aircraft

In a report on FAA's oversight of U.S.-registered aircraft, we recommended that FAA (1) require owners of such aircraft to notify FAA when they change from a foreign to a U.S. lessee and inspect the aircraft when they enter the United States, particularly if they are from countries that do not meet international safety standards; (2) develop a system to ensure that foreign corporations accumulate at least 60 percent of the flight hours for their U.S.-registered aircraft in the United States; and (3) accelerate implementation of the proposed regulations for increasing aircraft registration fees. (GAO/RCED-93-135)

Mass Transit Grants

In a series of five reports, we recommended several improvements in FTA's oversight of mass transit grants. The reports had documented inadequacies in FTA's oversight; serious deficiencies in grantees' financial, technical, procurement, inventory, and other management controls; noncompliance with federal requirements; and improper expenditures of grant funds. FTA plans to implement most of our recommendations, which, if properly executed, should help better safeguard transit funds from risk of fraud, waste, abuse, and mismanagement. FTA, however, has not completed this effort and will have to be persistent to ensure that it does not lose momentum. (GAO/RCED-91-107, GAO/RCED-92-7, GAO/RCED-92-38, GAO/RCED-92-53, and GAO/RCED-93-8)

FAA Capital Investment
Mission Need Statements

We reported that many of the 25 FAA mission need statements we had examined, which established the basic justification for acquisition projects that could cost \$5 billion, contained assertions that were not supported by analysis and facts. We recommended that FAA approve only those statements and projects that were well supported with analytical evidence of current and projected needs. FAA needs to ensure that future mission

need statements are adequately supported to justify costly capital investments. (GAO/RCED-93-55)

Precision Landing Systems

In our report on precision landing systems, we examined the costs, the benefits, and the capabilities of various alternative technologies. We recommended that FAA prepare a mission need statement for precision landing systems in general based on a runway-by-runway determination of which system, or mix of systems, provides the most benefits at the lowest costs to both FAA and system users. This is especially important considering that airlines may be required to make substantial investments in some of these technologies at a time when they are experiencing severe financial difficulties. (GAO/RCED-93-33)

Transit Needs Projections

We recommended that, to help ensure that transit needs projections better reflect future costs, FTA include (1) operating needs for the nation's transit systems, (2) vehicle replacement needs for the entire human service operator fleet, and (3) operators' cost estimates for Americans With Disabilities Act compliance. Further, we recommended that FTA develop new projection methods that were more reflective of potential costs; include standard data requirements for transit needs projections in planning and management system regulations; and, when determining Bureau of Transportation Statistics activities, consider transit needs data requirements. (GAO/RCED-93-61)

Urban Transportation Planning

Our report on urban transportation planning recommended that the Secretary of Transportation develop criteria and related measures for comparing highway and mass transit projects that (1) consider such factors as mobility, environmental quality, safety, cost-effectiveness, and social and economic objectives and (2) identify how these criteria and measures may be applied by transportation planners and decisionmakers. These criteria will help states develop effective solutions, regardless of mode, to deal with congestion and air quality problems. (GAO/RCED-92-112)

Transportation Control Measures

Our report on transportation control measures recommended that the Secretary of Transportation and the Administrator of the Environmental Protection Agency (1) require local areas to assess the impact of implemented transportation control measures on reducing emissions and (2) cooperate in gathering and disseminating this information to states and localities in ozone and carbon monoxide nonattainment areas. Such information would help localities better plan for the use of transportation control measures and perhaps justify stronger disincentives to automobile use if transportation control measures prove ineffective. (GAO/RCED-93-169)

Amtrak Employee Training

In our report on Amtrak's training programs for employees who inspect and maintain rail equipment, we recommended that Amtrak (1) identify the basic skills its employees need and develop training by which they might acquire them and (2) determine the costs associated with providing improved training. Amtrak is assessing its training needs, but it has not determined the level of funding it needs to provide the improved training. (GAO/RCED-93-68)

Transportation: Traffic
Congestion and Air Quality

The Intermodal Surface Transportation Efficiency Act (ISTEA) of 1991 emphasized the link between traffic congestion and urban air pollution and the need to address both problems through local planning efforts. Our 1992 report identified several obstacles to achieving ISTEA's goals in these areas and recommended that the Department of Transportation report to the Congress midway through the reauthorization cycle (FY 1995) on its activities to overcome these obstacles. We noted in particular the need to perform and widely disseminate evaluations of the effectiveness of transportation demand management measures in reducing both congestion and pollution. (GAO/PEMD-93-2)

Related Products With
Open Recommendations:
Transportation

Product Title

Aging Aircraft: FAA Needs Comprehensive Plan to Coordinate Government and Industry Actions (GAO/RCED-90-75)

Air Traffic Control: FAA Can Better Forecast and Prevent Equipment Failures (GAO/RCED-91-179)

Air Traffic Control: FAA Needs to Justify Further Investment in Its Oceanic Display System (GAO/IMTEC-92-80)

Air Traffic Control: FAA's Implementation of Modernization Projects in the Field (GAO/RCED-89-92)

Air Traffic Control: Justifications for Capital Investments Need Strengthening (GAO/RCED-93-55)

Air Travel: Passengers Could Be Better Informed of Their Rights (GAO/RCED-91-156)

Aircraft Certification: Limited Progress on Developing International Design Standards (GAO/RCED-92-179)

Aircraft Certification: New FAA Approach Needed to Meet Challenges of Advanced Technology (GAO/RCED-93-155)

Aircraft Maintenance: FAA Needs to Follow Through on Plans to Ensure the Safety of Aging Aircraft (GAO/RCED-93-91)

Airline Competition: Impact of Changing Foreign Investment and Control Limits on U.S. Airlines (GAO/RCED-93-7)

Airport Safety: New Radar That Will Help Prevent Accidents Is 4 Years Behind Schedule (GAO/T-RCED-91-78)

Airspace System: Emerging Technologies May Offer Alternatives to the Instrument Landing System (GAO/RCED-93-33)

Airspace Use: FAA Needs to Improve Its Management of Special Use Airspace (GAO/RCED-88-147)

Amtrak Safety: Amtrak Should Implement Minimum Safety Standards for Passenger Cars (GAO/RCED-93-196)

Amtrak Training: Improvements Needed for Employees Who Inspect and Maintain Rail Equipment (GAO/RCED-93-68)

Aviation Research: FAA Could Enhance Its Program to Meet Current and Future Challenges (GAO/RCED-92-180)

Aviation Safety: Increased Oversight of Foreign Carriers Needed (GAO/RCED-93-42)

Aviation Safety: Limited Success Rebuilding Staff and Finalizing Aging Aircraft Plan (GAO/RCED-91-119)

Aviation Safety: New Regulations for Deicing Aircraft Could Be Strengthened (GAO/RCED-93-52)

Aviation Safety: Problems Persist in FAA's Inspection Program (GAO/RCED-92-14)

Aviation Safety: Progress Limited With Self-Audit and Safety Violation Reporting Programs (GAO/RCED-92-85)

Aviation Safety: Slow Progress in Making Aircraft Cabin Interiors Fireproof (GAO/RCED-93-37)

Aviation Safety: Unresolved Issues Involving U.S.-Registered Aircraft (GAO/RCED-93-135)

Charter Bus Service: Local Factors Determine Effectiveness of Federal Regulation (GAO/RCED-93-162)

Coast Guard: Abandoned Vessels Pollute Waterways and Cost Millions to Clean Up and Remove (GAO/RCED-92-235)

Coast Guard: Acquisition Program Staff Were Funded Improperly (GAO/RCED-93-123)

Coast Guard: Additional Actions Needed to Improve Cruise Ship Safety (GAO/RCED-93-103)

Coast Guard: Better Process Needed to Justify Closing Search and Rescue Stations (GAO/RCED-90-98)

Coast Guard: Coordination and Planning for National Oil Spill Response (GAO/RCED-91-212)

Coast Guard: Housing Acquisition Needs Have Not Been Adequately Justified (GAO/RCED-92-159)

Coast Guard: Inspection Program Improvements Are Under Way to Help Detect Unsafe Tankers (GAO/RCED-92-23)

Coast Guard: Magnitude of Alcohol Problems and Related Maritime Accidents Unknown (GAO/RCED-90-150)

Coast Guard: Management of the Research, Development, Test and Evaluation Program Needs Strengthening (GAO/RCED-93-157)

Coast Guard: Oil Spills Continue Despite Waterfront Facility Inspection Program (GAO/RCED-91-161)

Coast Guard: Reorganization Unlikely to Increase Resources or Overall Effectiveness (GAO/RCED-90-132)

Computer Reservation Systems: Action Needed to Better Monitor the CRS Industry and Eliminate CRS Biases (GAO/RCED-92-130)

Contract Award Practices: Metropolitan Washington Airports Authority Generally Observes Competitive Principles (GAO/RCED-93-63)

Defense Transportation: Ineffective Oversight Contributes to Freight Losses (GAO/NSIAD-92-96)

DOD Commercial Transportation: Savings Possible Through Better Audit and Negotiation of Rates (GAO/NSIAD-92-61)

FAA Budget: Key Issues Need to Be Addressed (GAO/T-RCED-92-51)

FAA Information Resources: Agency Needs to Correct Widespread Deficiencies (GAO/IMTEC-91-43)

FAA Staffing: Improvements Needed in Estimating Air Traffic Controller Requirements (GAO/RCED-88-106)

Highway Contracting: Disadvantaged Business Eligibility Guidance and Oversight Are Ineffective (GAO/RCED-92-148)

Highway Safety: Safety Belt Use Laws Save Lives and Reduce Costs to Society (GAO/RCED-92-106)

Highway Trust Fund: Strategies for Safeguarding Highway Financing (GAO/RCED-92-245)

International Aviation: Implications of Ratifying Montreal Aviation Protocol No. 3 (GAO/RCED-91-45)

International Trade: Easing Foreign Visitors' Arrivals at U.S. Airports (GAO/NSIAD-91-6)

Mass Transit: Federal Participation in Transit Benefit Programs (GAO/RCED-93-163)

Mass Transit Grants: If Properly Implemented, FTA Initiatives Should Improve Oversight (GAO/RCED-93-8)

Mass Transit Grants: Improved Management Could Reduce Misuse of Funds in UMTA's Region IX (GAO/RCED-92-7)

Mass Transit Grants: Noncompliance and Misspent Funds by Two Grantees in UMTA's New York Region (GAO/RCED-92-38)

Mass Transit Grants: Risk of Misspent and Ineffectively Used Funds in FTA's Chicago Region (GAO/RCED-92-53)

Mass Transit Grants: Scarce Federal Funds Misused in UMTA's Philadelphia Region (GAO/RCED-91-107)

Mass Transit Grants: UMTA Needs to Improve Procurement Monitoring at Local Transit Authority (GAO/RCED-89-94)

Mass Transit: Needs Projections Could Better Reflect Future Costs (GAO/RCED-93-61)

Motor Vehicle Regulations: Regulatory Cost Estimates Could Be Improved (GAO/RCED-92-110)

Motor Vehicle Safety: Key Issues Confronting the National Advanced Driving Simulator (GAO/RCED-92-195)

Motor Vehicle Safety: NHTSA Should Resume Its Support of State Periodic Inspection Programs (GAO/RCED-90-175)

Natural Gas Pipelines: Greater Use of Instrumented Inspection Technology Can Improve Safety (GAO/RCED-92-237)

Oil Spill Prevention: Progress Made in Developing Alaska Demonstration Programs (GAO/RCED-93-178)

Pollution From Pipelines: DOT Lacks Prevention Program and Information for Timely Response (GAO/RCED-91-60)

Railroad Safety: DOD Can Improve the Safety of On-Base Track and Equipment (GAO/RCED-91-135)

Railroad Safety: FRA's Staffing Model Cannot Estimate Inspectors Needed for Safety Mission (GAO/RCED-91-32)

Railroad Safety: More FRA Oversight Needed to Ensure Rail Safety in Region 2 (GAO/RCED-90-140)

Railroad Safety: New Approach Needed for Effective FRA Safety Inspection Program (GAO/RCED-90-194)

Telecommunications: Concerns About Competition in the Cellular Telephone Service Industry (GAO/RCED-92-220)

Telecommunications: FCC's Handling of Formal Complaints Filed Against Common Carriers (GAO/RCED-93-83)

Telecommunications: FCC's Oversight Efforts to Control Cross-Subsidization (GAO/RCED-93-34)

Traffic Congestion: Activities to Reduce Travel Demand and Air Pollution Are Not Widely Implemented (GAO/PEMD-93-2)

Transportation Infrastructure: Oversight of Rental Rates for Highway Construction Equipment Is Inadequate (GAO/RCED-93-86)

Transportation Infrastructure: The Nation's Highway Bridges Remain at Risk From Earthquakes (GAO/RCED-92-59)

Transportation Infrastructure: Urban Transportation Planning Can Better Address Modal Trade-offs (GAO/RCED-92-112)

Truck Safety: The Safety of Longer Combination Vehicles Is Unknown (GAO/RCED-92-66)

Truck Transport: Little Is Known About Hauling Garbage and Food in the Same Vehicles (GAO/RCED-90-161)

Urban Transportation: Reducing Vehicle Emissions With Transportation Control Measures (GAO/RCED-93-169)

Improving Human Resource Programs

Education and Employment Issue Area (Budget Function 500)

GAO Contact: Linda G. Morra, 202/512-7014

Impact of GAO's Work

In the post-cold war period, a nation's security will be increasingly tied to its ability to achieve overall levels of productivity that can sustain a rising standard of living for its people in a complex world economy. We have responsibility for the two cabinet departments—Education and Labor—charged with providing America a future and current work force that maintains its status as “a preeminent economic superpower.” With an increasingly competitive global marketplace serving as the backdrop, the Clinton administration faces great challenges in the education and employment training arenas. Our educational system has not kept pace with the demands of a changing economy. International competition, rapid technological innovations, and workplace restructuring are creating worker dislocation and major shifts in the skill demands for workers. There are longstanding Education Department managerial problems and a myriad of uncoordinated Labor programs.

To produce high-quality products and services that are competitive in a global economy, the nation must have a highly skilled work force. Our work, therefore, has focused on the quality and the financing of the education and the training of the nation's population, beginning with preschool through the secondary grades and continuing through college, including basic and remedial education, vocational and occupational skills training, and education for the handicapped. It also focuses on employment-related programs and policies affecting the nation's work force, such as improving transitions to employment by labor force entrants and workers dislocated from their previous jobs; enforcing regulations intended to provide safe and healthful workplaces, fair compensation for work performed, and protection against employment discrimination; and providing leadership in encouraging productive labor-management relations.

During the last few years, our work has contributed significantly to legislation and congressional debate. It has also resulted in significant monetary benefits and improvements of operations and programs in key Education and Labor Department areas, such as education reform, higher

education, work force competitiveness, and program management. Examples follow.

Education Reform

Our work in elementary and secondary education has played an integral part in the debate on key federal efforts focused on improving the nation's schools. Our report and testimony on systemwide school reform have been used by congressional members and staff as the Congress debates how to redirect federal education efforts from seeking only to ensure access and remediation for at-risk students to improving the nation's education system for all students. Our report on the funds allocation formula for the Chapter 1 Program—the single largest federal elementary and secondary education program—provided a reasoned, objective look at one of the most contentious issues facing the 103rd Congress. Likewise, our analysis of Census data showing changes in demographics of schoolage children in the last decade provided objective information relative to not only federal fund allocation but also to the challenges schools face today, such as increased poverty. Numerous members of the Congress and their staffs requested and received briefings on these studies.

On the basis of our work, the Congress made major revisions in the Carl D. Perkins Vocational Education Act, such as revisions improving allocation of program funds and increasing access to program improvement activities. The Congress also required the Department of the Interior's Bureau of Indian Affairs (BIA) to develop a plan to overcome deficiencies in identifying and providing services to handicapped Indian preschool students. After reviewing the plan, the Congress reassigned BIA's responsibilities to the states and tribes and provided the tribes with the funding BIA had been receiving to provide these services.

Our work on the Rehabilitation Services Administration's (RSA) guidance to states regarding the Order of Selection provision of the Rehabilitation Act of 1973 resulted in several key agency changes. That provision requires states to give priority to serving individuals with the most severe disabilities when states do not have enough resources to serve all eligible applicants. In response to our recommendations, RSA developed and issued a new Order of Selection policy and guidance to state rehabilitation agencies, plans to monitor state Order of Selection implementation decisions, and is collecting and disseminating information about various states' successful implementation of Order of Selection procedures.

Higher Education

Our work contributed significantly to many important changes made through the recently completed 1993 Budget Reconciliation Act (Public Law 103-66) and to the Higher Education Act of 1965—the key legislation responsible for providing financial assistance to postsecondary students. For example, during congressional deliberations about potential expansion of the Direct Student Loan Demonstration Program, we focused attention on the Department of Education's problems in administering the Guaranteed Student Loan Program and questioned the Department's ability to concurrently operate two major student loan programs. Our concerns contributed to the debate and a compromise proposal to phase in a limited direct lending program over 5 years in lieu of full implementation. In addition, a number of cost reduction changes were made to the Guaranteed Student Loan Program, such as requiring that the proceeds for parents' loans be disbursed in more than one installment during the school year, implementing risk-sharing for lenders and guaranty agencies, and eliminating the minimum interest rate yield lenders can make when financing their loan portfolio with tax exempt securities. The Congressional Budget Office estimated that these types of changes could save more than \$1 billion over 4 years.

Work Force Competitiveness

Information from our work on the current "nonsystem" of federally funded employment and training programs—150 programs in 14 departments and independent agencies with \$24 billion in fiscal year 1993 funding—is being used to address the need to streamline our nation's systems to assist the unemployed. This comprehensive overview data had not been compiled prior to our work and continues to be cited extensively by the Congress and the administration. We, among others, have stated that a national employment training strategy is needed, and the administration appears to be moving in this direction. An administration proposal to combine several programs to assist dislocated workers and develop one-stop career centers draws heavily on our work. Our work on the Employment Service and the Unemployment Insurance System has likewise raised the issue of whether some of the nation's principal programs were designed for a different era and whether their role needs to be re-evaluated.

A series of our studies addressing the needs of the nation's youth to guide and facilitate their movement from school into the work force has helped the Congress and the administration focus on this issue. We found that, even though American high schools direct most of their resources toward preparing students for college, few incoming high school freshman—about 15 percent—go on to graduate and then obtain a 4-year college degree within 6 years of leaving high school. A substantial number of the

remaining 85 percent wander between different education and employment experiences, many seemingly ill prepared for the workplace. Our latest report on comprehensive school-to-work transition strategies has had a significant impact on the administration's proposal to foster state and local school-to-work opportunities.

Our work on the Job Training Partnership Act provided the impetus for the Congress to undertake major revisions to the legislation, which were enacted in 1992. These revisions should begin to have such effects as better targeting of services; eliminating abuses in on-the-job training contracts; improving program evaluation, oversight, and data collection; increasing services for older workers; improving federal monitoring of racial and gender bias in services provided to participants; and saving an estimated \$150 million.

Program Management

Prompted in part by our reports and testimony, the Congress raised the maximum penalties for violations of workplace safety and health regulations and child labor laws, which we believe will provide a more effective deterrent to potential violators. In addition, these changes will result in \$198 million in increased government revenues in fiscal year 1993.

Our report on legislative and administrative options for improving workers' safety and health led to a comprehensive reexamination of the Occupational Safety and Health Administration's (OSHA) authorizing legislation. Senate and House legislators drew heavily on the options we had identified, incorporating most of them in bills that were introduced in the last two sessions of the Congress.

Key Open Recommendations

Education Department Management

In our report on education issues for the new administration to consider, we recommended that there needed to be a series of administrative or legislative corrective actions, or both, to improve the Department of Education's information and financial management systems. Such systems provide needed data and protect the federal government's financial interests from waste, fraud, and mismanagement. The Department is redesigning its core financial management systems and requested funds for this effort in its 1994 budget. It has also taken steps to improve cash management and has established an information management committee to address data collection and dissemination problems. (GAO/OCG-93-18TR)

In our report on the Department of Education's longstanding management problems, we recommended a multiphased approach to addressing those problems. For example, we recommended that the Secretary articulate a strategic management vision for the Department and adopt a strategic management process for setting goals and priorities such as the National Education Goals, measuring progress toward those goals, and ensuring accountability for attaining them. We also recommended that the Department continue to build on its initial steps taken over the last 2 years to enhance management by implementing a departmentwide strategic management process; identifying good management practices and supporting their adoption in other appropriate parts of the Department; rewarding managers for good leadership; filling technical and policymaking leadership positions with people with appropriate skills; and creating strategic information, financial, and human resources management plans that are integrated with the Department's overall strategic management process. The Secretary's Reinvention Coordinating Council has been meeting weekly to establish a framework to implement such initiatives as the National Goals legislation. The Department has also begun implementing a strategic planning process, refining its financial management strategic plan, and redesigning its core financial management systems. (GAO/HRD-93-47)

Vocational Education

In a report on vocational education, we recommended that the Secretary of Education provide leadership to complete development of a national vocational education data system in cooperation with affected organizations, such as the Council of Chief State Schools Officers, and with the assistance of the National Center for Education Statistics. The reauthorized Perkins Act required Education to establish a national system, and the Department has contracted for a national data needs study that will make recommendations to develop and implement the system. (GAO/HRD-89-55)

Within-School Discrimination

In our report on within-school discrimination under title VI of the Civil Rights Act of 1964, we recommended that the Secretary of Education issue title VI regulations that identify procedures schools should follow for assigning students to classes on the basis of academic ability or achievement level. The Department believes that expansion of title VI regulations is unnecessary. We disagree with the Department because current regulations do not provide state and local education agencies with needed standards on ability-based student assignments. (GAO/HRD-91-85)

Occupational Safety and Health

In our report on OSHA's policies and procedures for confirming abatement of hazards, we recommended that OSHA make changes to improve its ability to detect employers who fail to correct safety and health hazards found during inspections. The Secretary of Labor and the Office of Management and Budget (OMB) have approved OSHA's drafting a regulation to make this change. Labor plans to submit a draft regulation to OMB for review by March 1994. (GAO/HRD-91-35)

In our report on the accuracy of employer injury and illness records, we recommended that OSHA improve its procedures for detecting recordkeeping violations, such as failing to report injuries, through its enforcement activities. OSHA revised its operating procedures accordingly. It has since postponed implementation of these revisions, however. OSHA issued a draft directive in March 1993 to replace its 1987 directive and now says it does not expect to implement final revised procedures until March 1995. (GAO/HRD-89-23)

Unemployment Insurance

In our report on unemployment insurance trust fund reserves, we recommended that if the Congress wished to restore the self-financing feature of the program and to minimize the potential for significant state borrowing in recessions, it should require states to build adequate reserves during periods of low unemployment. No action has been taken on this recommendation. (GAO/HRD-88-55)

Student Achievement
Standards

After reviewing standards set to interpret students' performance on the National Assessment of Educational Progress (NAEP), we found many technical flaws that made the results of doubtful validity. We recommended that the new standards be withdrawn by the NAEP governing board, that they not be used in reporting NAEP results, and that the governing board also take a number of specific steps to ensure that it does not adopt technically unsound policies or approve technically flawed results. (GAO/PEMD-93-12)

Vocational Rehabilitation

Our 8-year followup evaluation, using unique computer-matched wage and service data, showed there are only modest long-term outcomes of the state-federal program that provides services to assist persons with disabilities to become employed, more independent, and integrated into the community. We also found unexplained disparities in the extent of services purchased for clients of different races. We recommended that the Secretary of Education find out why these disparities exist, strengthen evaluation in a number of ways, and take steps to establish the National

Commission on Rehabilitation Services, authorized in 1992 to review the program in depth, before the next reauthorization. (GAO/PEMD-93-19)

**Related Products With
Open Recommendations:
Education and
Employment**

Product Title

Adolescent Drug Use Prevention: Common Features of Promising Community Programs (GAO/PEMD-92-2)

Apprenticeship Training: Administration, Use, and Equal Opportunity (GAO/HRD-92-43)

Chapter 1 Accountability: Greater Focus on Program Goals Needed (GAO/HRD-93-69)

Department of Education: Longstanding Management Problems Hamper Reforms (GAO/HRD-93-47)

Dislocated Workers: Improvements Needed in Trade Adjustment Assistance Certification Process (GAO/HRD-93-36)

Dislocated Workers: Worker Adjustment and Retraining Notification Act Not Meeting Its Goals (GAO/HRD-93-18)

Educational Achievement Standards: NAGB's Approach Yields Misleading Interpretations (GAO/PEMD-93-12)

Education Issues (GAO/OCG-93-18TR)

Employment Service: Improved Leadership Needed for Better Performance (GAO/HRD-91-88)

Environment, Safety, and Health: Environment and Workers Could Be Better Protected at Ohio Defense Plants (GAO/RCED-86-61)

Federal Employment: Displaced Federal Workers Can Be Helped by Expanding Existing Programs (GAO/GGD-92-86)

Federal Prisons: Inmate and Staff Views on Education and Work Training Programs (GAO/GGD-93-33)

Financial Audit: Guaranteed Student Loan Program's Internal Controls and Structure Need Improvement (GAO/AFMD-93-20)

Financial Management: Education's Student Loan Program Controls Over Lenders Need Improvement (GAO/AIMD-93-33)

Foreign Farm Workers in U.S.: Department of Labor Action Needed to Protect Florida Sugar Cane Workers (GAO/HRD-92-95)

Impact Aid: Most School Construction Requests Are Unfunded and Outdated (GAO/HRD-90-90)

Minimum Wages and Overtime Pay: Change in Statute of Limitations Would Better Protect Employees (GAO/HRD-92-144)

National Labor Relations Board: Action Needed to Improve Case-Processing Time at Headquarters (GAO/HRD-91-29)

Occupational Safety and Health: Assuring Accuracy in Employer Injury and Illness Records (GAO/HRD-89-23)

Occupational Safety and Health: OSHA Action Needed to Improve Compliance With Hazard Communication Standard (GAO/HRD-92-8)

Occupational Safety and Health: OSHA Policy Changes Needed to Confirm That Employers Abate Serious Hazards (GAO/HRD-91-35)

Occupational Safety and Health: Penalties for Violations Are Well Below Maximum Allowable Penalties (GAO/HRD-92-48)

Occupational Safety and Health: Worksite Safety and Health Programs Show Promise (GAO/HRD-92-68)

Remedial Education: Modifying Chapter 1 Formula Would Target More Funds to Those Most in Need (GAO/HRD-92-16)

Stafford Student Loans: Prompt Payment of Origination Fees Could Reduce Costs (GAO/HRD-92-61)

Student Testing: Current Extent and Expenditures, With Cost Estimates for a National Examination (GAO/PEMD-93-8)

Systemwide Education Reform: Federal Leadership Could Facilitate District-Level Efforts (GAO/HRD-93-97)

Targeted Jobs Tax Credit: Employer Actions to Recruit, Hire, and Retain Eligible Workers Vary (GAO/HRD-91-33)

The Changing Work Force: Comparison of Federal and Nonfederal Work/Family Programs and Approaches (GAO/GGD-92-84)

Transition From School to Work: Linking Education and Worksite Training (GAO/HRD-91-105)

Transition From School to Work: States Are Developing New Strategies to Prepare Students for Jobs (GAO/HRD-93-139)

Unemployment Insurance: Trust Fund Reserves Inadequate (GAO/HRD-88-55)

Vocational Education: Opportunity to Prepare for the Future (GAO/HRD-89-55)

Vocational Rehabilitation: Better VA Management Needed to Help Disabled Veterans Find Jobs (GAO/HRD-92-100)

Vocational Rehabilitation: Evidence for Federal Program's Effectiveness Is Mixed (GAO/PEMD-93-19)

Vocational Rehabilitation: VA Needs to Emphasize Serving Veterans With Serious Employment Handicaps (GAO/HRD-92-133)

Welfare to Work: Implementation and Evaluation of Transitional Benefits Need HHS Action (GAO/HRD-92-118)

Welfare to Work: JOBS Participation Rate Data Unreliable for Assessing States' Performance (GAO/HRD-93-73)

Welfare to Work: States Move Unevenly to Serve Teen Parents in JOBS (GAO/HRD-93-74)

**Within-School Discrimination: Inadequate Title VI Enforcement by the
Office for Civil Rights (GAO/HRD-91-85)**

Federal Health Care Delivery Issue Area (Budget Function 550)

GAO Contact: David P. Baine, 202/512-7101

Impact of GAO's Work

The Department of Defense (DOD) and the Department of Veterans Affairs (VA) operate two of the largest centrally managed health care systems in the world, spending more than \$25 billion annually through 500 facilities and a network of private providers. In addition, the Health Care Financing Administration (HCFA) is administering the multibillion dollar Medicare and Medicaid programs that finance health care provided to the nation's elderly, disabled, and economically disadvantaged.

Rising health care costs and substantial budget deficits have prompted increased congressional concerns about whether these agencies are delivering quality health care to their beneficiaries as efficiently and cost effectively as possible. The downsizing of military forces and the potential transfer of beneficiaries from DOD systems to VA systems has also prompted a concern about the structure of DOD and VA health delivery systems. Our objectives in this issue area are to (1) identify ways that VA and DOD health care systems can operate more effectively and efficiently; (2) identify and assess opportunities for restructuring VA and DOD health care delivery systems to enhance universal access to health care; and (3) improve the quality of health care processes in VA, DOD, Medicare/Medicaid, and Public Health Service programs.

DOD Programs

During fiscal year 1993, we continued making progress toward achieving of these objectives. For example, our work on DOD's efforts to reform the military health services system has identified lessons learned that can provide useful information and insight for how DOD should best proceed in implementing managed health care throughout its system. The recommendations we made, which DOD is implementing, will increase and improve accountability, budgeting, resource allocation, training, information systems, and contracting. In addition, DOD is working on establishing a uniform health care benefits package that will be more equitable for all beneficiaries. Our continued evaluation of the management of mental health care under Comprehensive Health and Medical Program of the Uniform Service (CHAMPUS) showed that DOD was making progress but still needed to adopt stronger controls to prevent duplicate and erroneous payments to providers of psychiatric care.

We identified problems in the way CHAMPUS was controlling access to home health care under two demonstration projects and potential duplication between the home care program and DOD's managed care program. Although the Congress authorized a permanent CHAMPUS home care benefit, DOD plans to address our concerns in implementing the program and include coordination of the home care program under the managed care program.

VA Programs

We are continuing a comprehensive effort to address the restructuring of federal health care delivery systems and beneficiary eligibility reforms. This effort will provide a better understanding of, and federal options for, a system of universal access to quality health care. As part of this effort, GAO testified three times on the problems VA will likely face in competing under national health reforms. We suggested that construction of most new VA capacity be suspended until health reforms take shape. This was to avoid spending funds constructing facilities that may be obsolete before they are completed. GAO identified a series of problems in the management of VA construction projects that result in projects that are too big, take too long to construct, and cost too much.

In addition, we suggested that VA consider setting up demonstration projects in several communities that currently lack VA hospitals. These demonstrations would center around VA outpatient clinics, with contracts for inpatient care. Further, we have demonstrated that VA medical centers' outpatient care eligibility and rationing decisions could be improved and should ensure that eligible veterans receive more consistent treatment at VA facilities. Also as a result of our work, VA should be in a position to improve its policies and practices for ensuring consistent access to treatment by all eligible veterans.

Our reviews of VA site selections in east central Florida and northern California resulted in reevaluations of VA decisions to build new medical centers in Orlando, Florida, and Davis, California. Based on our work, VA decided to build the facilities in Brevard County, Florida, and Fairfield, California. Both facilities will be constructed as joint ventures with the Air Force, resulting in significant cost savings.

Although VA ultimately decided to proceed with construction of a new hospital in Hawaii, the revised plans do provide for greater sharing of such services as laundry and dietetics. The recommendation should remain open, however, because the facility has not received construction funding and there continues to be little justification for construction of the facility.

Our work on locality-based pay for VA nurses identified significant internal control weaknesses that provide little assurance that the innovative pay system will improve recruitment and retention of nurses or that the pay rates are reasonable. Although VA has taken some action on our recommendations, more needs to be done.

VA issued several directives to improve health care services to women veterans. The Congress held several hearings on the subject to help ensure that changes are made.

Quality of Care Provided to Federal Beneficiaries

During fiscal year 1993, we issued a capping report on our quality assurance work at VA and reported that VA Medical Centers are not correcting quality assurance problems identified by either GAO or the VA Inspector General. Our work at the Salem, Virginia, Medical Center showed that improvements are needed in the psychiatric care provided by the facility. VA concurred with our recommendations to correct these conditions. But, medical centers must take the necessary action to resolve these problems. In the past, this has not been consistently done.

Apart from our work in VA, we completed several reviews in areas that impact on quality of care outside the federal sector. Specifically, we reported that work hours of resident physicians can be legislatively mandated by amending the Medicare conditions of participation, but that several factors must be taken into consideration before such action is taken. We also (1) issued a fact sheet on how utilization review organizations perform their work; (2) evaluated the effectiveness of HealthPASS, a managed care program for certain Philadelphia Medicaid recipients; and (3) reviewed HCFA's evaluation of the Joint Commission on Accreditation of Healthcare Organizations' application for home health care deemed status. Our review of HealthPASS resulted in recommendations to the Secretary of Health and Human Services that, if implemented, will improve the quality of care provided to recipients and give HealthPASS members better access to other Medicaid programs.

Key Open Recommendations

As we recommended in our report on VA's verification of a veteran's reported income, the Congress extended VA's authority to use tax records in determining veteran's copayment liability. We also recommended that VA implement an income-verification system as soon as possible after such authority was extended. (GAO/HRD-92-159)

In another report, we recommended that VA should only use private health care when the needed services are not available at VA facilities or a veteran's geographic inaccessibility makes it more economical to use private care. (GAO/HRD-92-109)

We recommended that VA's plans to consolidate and automate mail-service pharmacies (1) assume maximum use of 90-day supplies when dispensing maintenance drugs prescribed at a stabilized dose, (2) select the most cost-efficient locations for the mail-service pharmacies, and (3) ensure compatibility of prescription handling and automatic data processing equipment throughout VA facilities to maximize efficiency. (GAO/HRD-92-30)

In our report on federal ethics requirements at VA medical centers, we recommended that VA revise policies governing types of employment activities that medical center managers may engage in and establish stronger procedures for enforcing federal ethics requirements. (GAO/HRD-93-39)

In our report on variabilities in VA's outpatient care eligibility and rationing decisions, we recommended that VA develop better guidance to medical centers so that clinicians may achieve more consistent application of statutory eligibility requirements or propose to the Congress alternative eligibility criteria that produce greater consistency of eligibility determinations. (GAO/HRD-93-106)

In our report on the establishment of the Hawaii Medical Center, we recommended that VA reconsider its decision to build additional acute care beds at Tripler Army Medical Center's E-Wing and that VA and DOD develop a joint venture agreement to give VA autonomy over care provided to veterans at Tripler. We also recommended that VA use Tripler's E-Wing to accommodate its planned nursing home. (GAO/HRD-92-41)

In our report on the quality-of-care provided by some VA psychiatric hospitals, we recommended that each hospital director be held responsible for making certain that quality-of-care problems are identified and resolved. (GAO/HRD-92-17)

We recommended that VA regional directors be required to have inspection teams ensure that every medical center in their region is complying with quality assurance requirements and that problems GAO and the Inspector General identified have been corrected. (GAO/HRD-93-20)

In our report on the Salem VA Medical Center, we recommended that psychiatric care provided at the medical center be reviewed and necessary actions be taken to ensure that care meets medical center bylaws.

(GAO/HRD-93-108)

In our report on HealthPASS, we recommended that the Secretary of Health and Human Services (1) require the Pennsylvania Department of Public Welfare to make necessary arrangements to share the names of HealthPASS members with the Women, Infants, and Children Program and (2) direct the State of Pennsylvania to include in its contract with Healthcare Management Alternatives, Inc., a requirement to query nationwide information banks to improve the identification of potentially problematic physicians in the HealthPASS program. (GAO/HRD-93-67)

In our report on the management of CHAMPUS mental health benefits, we recommended that the Secretary of Defense (1) establish a cost-based reimbursement system similar to Medicare and (2) adopt the hospital annual index used in the Medicare and CHAMPUS prospective payment system to reimburse psychiatric residential treatment centers.

(GAO/HRD-93-34)

In our report on fraud and abuse in psychiatric hospitals, we recommended that DOD adopt procedures for visiting and inspecting psychiatric hospitals to determine whether problems involving unnecessary hospital stays and quality of care have been corrected and to ensure that DOD contractors improve their claims payment systems to minimize payments for unauthorized hospital stays and to avoid duplicate payments. (GAO/HRD-93-92)

In our testimony on DOD's managed health care initiatives, we recommended that, as DOD continues to contract for health care services, it (1) carefully determine when contracting will and will not be appropriate; (2) carefully determine the size of its procurements to ensure sufficient competition; and (3) take appropriate safeguards to ensure high quality and accessible care that protects beneficiaries and the government against poor contractor performance. (GAO/T-HRD-93-21)

**Related Products With
Open Recommendations:
Federal Health Care
Delivery**

Product Title

Composite Health Care System: Outpatient Capability Is Nearly Ready for Worldwide Deployment (GAO/IMTEC-93-11)

Defense Health Care: Additional Improvements Needed in CHAMPUS's Mental Health Program (GAO/HRD-93-34)

Defense Health Care: CHAMPUS Mental Health Demonstration Project in Virginia (GAO/HRD-93-53)

Defense Health Care: Implementing Coordinated Care—A Status Report (GAO/HRD-92-10)

Defense Health Care: Lessons Learned From DOD's Managed Health Care Initiatives (GAO/T-HRD-93-21)

Defense Health Care: Obstacles in Implementing Coordinated Care (GAO/T-HRD-92-24)

Defense Health Care: Physical Exams and Dental Care Following the Persian Gulf War (GAO/HRD-93-5)

DOD Health Care: Further Testing and Evaluation of Case-Managed Home Health Care Is Needed (GAO/HRD-93-59)

DOD Medical Inventory: Reductions Can Be Made Through the Use of Commercial Practices (GAO/NSIAD-92-58)

Federal Health Benefits Program: Stronger Controls Needed to Reduce Administrative Costs (GAO/GGD-92-37)

Maternal and Child Health: Block Grant Funds Should Be Distributed More Equitably (GAO/HRD-92-5)

Medicaid: HealthPASS: An Evaluation of a Managed Care Program for Certain Philadelphia Recipients (GAO/HRD-93-67)

Medical ADP Systems: Automated Medical Records Hold Promise to Improve Patient Care (GAO/IMTEC-91-5)

Methadone Maintenance: Some Treatment Programs Are Not Effective; Greater Federal Oversight Needed (GAO/HRD-90-104)

Military Health Care: Recovery of Medical Costs From Liable Third Parties Can Be Improved (GAO/NSIAD-90-49)

Pesticides: Need To Enhance FDA's Ability To Protect the Public From Illegal Residues (GAO/RCED-87-7)

Psychiatric Fraud and Abuse: Increased Scrutiny of Hospital Stays Is Needed for Federal Health Programs (GAO/HRD-93-92)

Trauma Care Reimbursement: Poor Understanding of Losses and Coverage for Undocumented Aliens (GAO/PEMD-93-1)

VA Health Care: Actions Needed to Control Major Construction Costs (GAO/HRD-93-75)

VA Health Care: Copayment Exemption Procedures Should Be Improved (GAO/HRD-92-77)

VA Health Care: Inadequate Controls Over Scarce Medical Specialist Contracts (GAO/HRD-92-114)

VA Health Care: Inadequate Enforcement of Federal Ethics Requirements at VA Medical Centers (GAO/HRD-93-39)

VA Health Care: Labor Management and Quality-of-Care Issues at the Salem VA Medical Center (GAO/HRD-93-108)

VA Health Care: Medical Centers Are Not Correcting Identified Quality Assurance Problems (GAO/HRD-93-20)

VA Health Care: Modernizing VA's Mail-Service Pharmacies Should Save Millions of Dollars (GAO/HRD-92-30)

VA Health Care: Offsetting Long-Term Care Costs by Adopting State Copayment Practices (GAO/HRD-92-96)

VA Health Care: Potential for Offsetting Long-Term Care Costs Through Estate Recovery (GAO/HRD-93-68)

VA Health Care: Problems in Implementing Locality Pay for Nurses Not Fully Addressed (GAO/HRD-93-54)

VA Health Care: Role of the Chief of Nursing Service Should Be Elevated (GAO/HRD-92-74)

VA Health Care: Telephone Service Should Be More Accessible to Patients (GAO/HRD-91-110)

VA Health Care: The Quality of Care Provided by Some VA Psychiatric Hospitals Is Inadequate (GAO/HRD-92-17)

VA Health Care: Use of Private Providers Should Be Better Controlled (GAO/HRD-92-109)

VA Health Care: VA Plans Will Delay Establishment of Hawaii Medical Center (GAO/HRD-92-41)

VA Health Care: Variabilities in Outpatient Care Eligibility and Rationing Decisions (GAO/HRD-93-106)

VA Health Care: Verifying Veterans' Reported Income Could Generate Millions in Copayment Revenues (GAO/HRD-92-159)

Veterans Affairs Issues (GAO/OCG-93-21TR)

Veterans Benefits: Acquisition of Information Resources for Modernization Is Premature (GAO/IMTEC-93-6)

Income Security Issue Area (Budget Functions 600, 650, and 700)

GAO Contact: Joseph F. Delfico, 202/512-7215

Impact of GAO's Work

Income security programs affect all Americans at some time. Their purpose, in part, is to help people become self-sufficient and to support those unable to support themselves. The programs provide cash aid to the elderly, the disabled, the poor, and veterans; a conduit for funding in-kind assistance for such needy populations as the homeless, refugees, runaway youth, and abused children; and oversight for the private pension system. Income security expenditures make up about 35 percent of all federal spending.

Our work provided information and recommendations directed at (1) improving the planning and the management of retirement programs; (2) ensuring the protection of worker benefits; (3) helping the government meet the needs of the poor by getting them on the path toward self-sufficiency; (4) seeing that vulnerable groups, including the disabled, were well served and protected by income security programs; (5) improving the quality of services provided to the public; and (6) ensuring the efficient administration of income security programs.

For example, because of GAO's review, the Pension Benefit Guaranty Corporation developed and implemented new procedures for collecting insurance premiums, penalties, and interest, resulting in the collection of an additional \$20 million. Also, on the basis of our recommendations, the Department of Veterans Affairs (VA) established procedures for verifying the accuracy of medical expenses claimed by pension beneficiaries and used by VA in computing benefit amounts. These procedures should save VA an estimated \$91 million annually.

On the basis of our recommendations, legislation was enacted authorizing the Social Security Administration (SSA) to recover debts owed by former SSA beneficiaries by requesting Treasury to withhold any tax refunds. SSA estimated that it would collect \$213 million during the first 3 years of implementation of this legislation. Further, on the basis of our recommendations, legislation was enacted allowing VA access to tax data to verify income information provided by VA pension program beneficiaries and persons receiving VA unemployability benefits. When enacted, this

legislation had a September 1992 expiration date. Our work in this area, which indicated that millions of dollars could be saved by matching records, led to an extension of VA's authority until September 1997. Finally, on the basis of our recommendations related to ensuring that subsidized housing units were occupied by needy families, the Congress enacted legislation allowing the Department of Housing and Urban Development access to federal tax data to verify program eligibility.

As a result of our continuing work in the use of SSA's death information to reduce payments to deceased persons, legislation was enacted that will cause states to share previously restricted information. This will result in yearly savings of \$5.5 million with first-year savings of \$14 million. In addition, pursuant to our recommendations, VA and the Department of Health and Human Services (HHS) entered into an agreement to match VA compensation and pension files and SSA death files to identify and end erroneous payments. Finally, savings of \$127 million annually resulted from legislation enacted upon our recommendation to reduce pension payments to veterans' surviving spouses without dependents who receive Medicaid-supported nursing home care.

Key Open Recommendations

Child Support Enforcement

In June 1992, we reported that states had done little to help defray the costs of providing child support enforcement services to clients who did not receive Aid to Families With Dependent Children (AFDC) benefits. With the broad discretion available to them, most states have implemented minimal fee policies. In 1990, about 3.5 percent of the \$644 million in administrative costs for non-AFDC clients was recovered by the states through fees. We recommended that the Congress amend title IV-D of the Social Security Act to require states to recover more of these costs in the future. Congressional action has not been initiated because the Congress is awaiting the administration's proposals for welfare and child support reforms. (GAO/HRD-92-91)

Foster Care

In August 1992, we reported that child abuse prevention programs had been shown to be effective. Although few in number, evaluations of these programs indicate that they reduced the incidence of abuse in high-risk families and the cost of long-range problems associated with abuse. While the federal government provides billions of dollars annually to states for foster care and other assistance for children who have already been

abused, it provides relatively little funding for prevention. We recommended that, to give states incentives to implement and sustain child abuse prevention programs, the Congress amend title IV of the Social Security Act to authorize the Secretary of Health and Human Services to reimburse states, at foster care matching rates, for the cost of implementing prevention programs. The reimbursements would be provided to states that demonstrated that the programs, by reducing child abuse and related foster care placements, were paying for themselves. The Congress has taken some action to make limited funds available for possible use in child abuse prevention but has not specifically addressed our recommendation. (GAO/HRD-92-99)

In September 1991, we pointed out the need for nationwide foster care data for use in federal policy deliberations. We found that the lack of common definitions or methodologies nationwide; the absence of data from states over the years; and the collection of aggregate, rather than case-level, data all served to impede the development of a national foster care information system. We recommended that the Congress (1) reemphasize the need for prompt issuance of regulations for improved state data bases, (2) amend the timetable for states to implement automated data systems, and (3) establish specific federal policy on funding these systems. Action is being taken on these recommendations. The Congress enacted legislation providing a 75-percent match for administrative costs associated with developing a foster care data base. HHS has drafted regulations that states must meet to be eligible for the match. (GAO/HRD-91-64)

Child Care

In November 1992, we reported that states were struggling to enforce their child care standards and promote quality in various child care settings. While legislation authorizing the Child Care and Development Block Grant (CCDBG) had been recently enacted and provided some money to states for quality improvement activities, including enforcement, HHS regulations further restricted the amount to be used for these activities. Given this, state officials were not optimistic about CCDBG's impact on their quality improvement and enforcement efforts, especially if state budget constraints continued and heavy caseloads worsened as new providers, paid with CCDBG funds, entered the market. We recommended to HHS that it assess whether the quantity of child care services under CCDBG would exceed the states' capacities to ensure that those services meet an acceptable level of care and, if so, modify its regulations restricting the use of CCDBG's quality improvement money. Action has not yet been initiated on this recommendation. (GAO/HRD-93-13)

Veterans' Benefits

In July 1989, we reported that an estimated 19 percent of veterans receiving compensation benefits had disabilities resulting from diseases that had probably been neither caused nor aggravated by military service. Many of these diseases that are related to heredity or lifestyle resulted in benefits estimated at about \$1.7 billion in 1986. We recommended that the Congress reconsider whether these diseases should be compensated as service-connected disabilities. The Congress has not yet taken action. (GAO/HRD-89-60)

In March 1992, we reported that three VA-administered life insurance programs had sufficient excess funds to pay their own administrative costs. This would save an estimated \$27 million annually in appropriated funds. We recommended that the Congress amend 38 U.S.C. 1982 to require that these administrative costs be paid from excess interest income. The Congress has not yet initiated action. (GAO/HRD-92-42)

In July 1992, we reported that the operating reserves for VA's Servicemen's Group Life Insurance Program (SGLI) needed to be increased by \$85 million by 1998. At the same time, the contingency reserves contained about \$51 million in excess funds in relation to program needs. Throughout the 1980s, VA overcharged military personnel for their insurance, causing continued growth of excess reserves. We recommended that VA (1) reduce the contingency reserve to \$25 million and use the excess funds to provide a portion of the additional operating reserves and (2) compute each year the true premiums to be paid by SGLI participants and adjust premiums as appropriate. VA has not initiated action on our recommendations. (GAO/HRD-92-71)

In September 1992, we reported that VA's vocational rehabilitation program did not emphasize finding jobs for veterans, that VA did not know why most veterans had dropped out of the program, and that standards for measuring service to veterans needed to be improved. We recommended that VA (1) meet legislative requirements related to finding and maintaining suitable employment for disabled veterans, (2) work with the Department of Labor to effectively provide job placement services, (3) determine the reasons why veterans were dropping out and take action to increase the number of veterans completing the program, and (4) establish a realistic performance measurement system. VA agreed with the recommendations and has initiated some action. (GAO/HRD-92-100)

Retirees' Benefits

We evaluated the readability of forms used by retirees who had chosen not to select survivor benefits for their spouses. In December 1989 and in

December 1992, we recommended that the Internal Revenue Service (IRS) develop model language to be used by pension plans to clarify the implications of options available to retirees and their spouses. Once implemented, this recommendation could lead to an increase in the number of elderly widowed spouses receiving income from the private pension system. IRS has taken some action. (GAO/HRD-90-20)

Social Security

In March 1987, we reported on management problems that SSA must address to ensure high-quality services. Our report contained numerous recommendations. While some are closed, those still open address (1) improving the long-term operational plan, (2) reexamining resources and priorities of existing automated data processing systems, (3) improving various aspects of the management information system, and (4) establishing performance standards and measurements. (GAO/HRD-87-39)

In July 1991, we provided information to the Congress on debt management practices at SSA, the Railroad Retirement Board, the Office of Personnel Management, and VA. We recommended that SSA (1) assign central responsibility for debt management to the Deputy Commissioner for Finance, Assessment, and Management and (2) accelerate completion of the management information system needed to support effective debt management. Also, we recommended that the Director, Office of Management and Budget, direct the Secretary of Veterans' Affairs to assess interest and administrative costs on overpayments, as required by the Veterans Rehabilitation and Education Amendments of 1980. (GAO/HRD-91-46)

Related Products With Open Recommendations: Income Security

Product Title

Adequacy of the Administration on Aging's Provision of Technical Assistance for Targeting Services Under the Older Americans Act (GAO/T-PEMD-91-3)

Administration on Aging: More Federal Action Needed to Promote Service Coordination for the Elderly (GAO/HRD-91-45)

Board and Care Homes: Elderly at Risk From Mishandled Medications (GAO/HRD-92-45)

Child Abuse: Prevention Programs Need Greater Emphasis (GAO/HRD-92-99)

Child Care: States Face Difficulties Enforcing Standards and Promoting Quality (GAO/HRD-93-13)

Child Support Enforcement: Opportunity To Defray Burgeoning Federal and State Non-AFDC Costs (GAO/HRD-92-91)

Child Support Enforcement: States Proceed With Immediate Wage Withholding; More HHS Action Needed (GAO/HRD-93-99)

Debt Management: More Aggressive Actions Needed to Reduce Billions in Overpayments (GAO/HRD-91-46)

Early Intervention: Federal Investments Like WIC Can Produce Savings (GAO/HRD-92-18)

Employee Benefits: Improved Plan Reporting and CPA Audits Can Increase Protection Under ERISA (GAO/AFMD-92-14)

Employee Benefits: States Need Labor's Help Regulating Multiple Employer Welfare Arrangements (GAO/HRD-92-40)

Federal Employees' Compensation Act: Need to Increase Rehabilitation and Reemployment of Injured Workers (GAO/GGD-92-30)

Financial Audit: Department of Veterans Affairs Financial Statements for Fiscal Years 1989 and 1988 (GAO/AFMD-91-6)

Financial Audit: System and Control Problems Further Weaken the Pension Benefit Guaranty Fund (GAO/AFMD-92-1)

Financial Audit: Veterans Administration's Financial Statements for Fiscal Year 1986 (GAO/AFMD-87-38)

Financial Audit: Veterans Administration's Financial Statements for Fiscal Years 1987 and 1986 (GAO/AFMD-89-23)

Financial Audit: Veterans Administration's Financial Statements for Fiscal Years 1988 and 1987 (GAO/AFMD-89-69)

Financial Management: Opportunities for Improving VA's Internal Accounting Controls and Procedures (GAO/AFMD-89-35)

Foreign Farm Workers in U.S.: Department of Labor Action Needed to Protect Florida Sugar Cane Workers (GAO/HRD-92-95)

Foster Care: Children's Experiences Linked to Various Factors; Better Data Needed (GAO/HRD-91-64)

Foster Care: Services to Prevent Out-of-Home Placements Are Limited by Funding Barriers (GAO/HRD-93-76)

Homelessness: Access to McKinney Act Programs Improved but Better Oversight Needed (GAO/RCED-91-29)

Homelessness: Action Needed to Make Federal Surplus Property Program More Effective (GAO/RCED-91-33)

Homelessness: Federal Personal Property Donations Provide Limited Benefit to the Homeless (GAO/RCED-91-108)

Housing Programs: VA Can Reduce Its Guaranteed Home Loan Foreclosure Costs (GAO/RCED-89-58)

Immigration Reform: Verifying the Status of Aliens Applying for Federal Benefits (GAO/HRD-88-7)

Older Americans Act: More Federal Action Needed on Public/Private Elder Care Partnerships (GAO/HRD-92-94)

Pension Plans: Pension Benefit Guaranty Corporation Needs to Improve Premium Collections (GAO/HRD-92-103)

Premium Accounting System: Pension Benefit Guaranty Corporation System Must Be an Ongoing Priority (GAO/IMTEC-92-74)

Private Pensions: Protections for Retirees' Insurance Annuities Can Be Strengthened (GAO/HRD-93-29)

Private Pensions: Spousal Consent Forms Hard to Read and Lack Important Information (GAO/HRD-90-20)

Rental Housing: Housing Vouchers Cost More Than Certificates but Offer Added Benefits (GAO/RCED-89-20)

Social Security Administration: Stable Leadership and Better Management Needed To Improve Effectiveness (GAO/HRD-87-39)

Social Security: Beneficiary Payment for Representative Payee Services (GAO/HRD-92-112)

Social Security Disability: SSA Needs to Improve Continuing Disability Review Program (GAO/HRD-93-109)

Social Security: IRS Tax Identity Data Can Help Improve SSA Earnings Records (GAO/HRD-93-42)

Social Security: Many Administrative Law Judges Oppose Productivity Initiatives (GAO/HRD-90-15)

Social Security: Measure of Telephone Service Accuracy Can Be Improved (GAO/HRD-91-69)

Social Security: Need for Better Coordination of Food Stamp Services for Social Security Clients (GAO/HRD-92-92)

Social Security: Need to Improve Postentitlement Service to the Public (GAO/HRD-93-21)

Social Security: Racial Difference in Disability Decisions Warrants Further Investigation (GAO/HRD-92-56)

Social Security: Reconciliation Improved SSA Earnings Records, but Efforts Were Incomplete (GAO/HRD-92-81)

Social Security: Reporting and Processing of Death Information Should Be Improved (GAO/HRD-92-88)

Social Security: Selective Face-to-Face Interviews With Disability Claimants Could Reduce Appeals (GAO/HRD-89-22)

Social Security: Status and Evaluation of Agency Management Improvement Initiatives (GAO/HRD-89-42)

SSA Computers: Long-Range Vision Needed to Guide Future Systems Modernization Efforts (GAO/IMTEC-91-44)

The New Earned Income Credit Form Is Complex and May Not Be Needed (GAO/T-GGD-91-68)

Urban Poor: Tenant Income Misreporting Deprives Other Families of HUD-Subsidized Housing (GAO/HRD-92-60)

VA Benefits: Law Allows Compensation for Disabilities Unrelated to Military Service (GAO/HRD-89-60)

VA Life Insurance: Administrative Costs for Three Programs Should Be Paid From Excess Funds (GAO/HRD-92-42)

VA Life Insurance: Premiums and Program Reserves Need More Timely Adjustments (GAO/HRD-92-71)

Veterans Affairs IRM: Stronger Role Needed for Chief Information Resources Officer (GAO/IMTEC-91-51BR)

Veterans' Benefits: Improved Management Needed to Reduce Waiting Time for Appeal Decisions (GAO/HRD-90-62)

Veterans' Compensation: Premature Closing of VA Office in the Philippines Could Be Costly (GAO/HRD-93-96)

Vocational Rehabilitation: Better VA Management Needed to Help Disabled Veterans Find Jobs (GAO/HRD-92-100)

Vocational Rehabilitation: VA Needs to Emphasize Serving Veterans With Serious Employment Handicaps (GAO/HRD-92-133)

Welfare Benefits: States Need Social Security's Death Data to Avoid Payment Error or Fraud (GAO/HRD-91-73)

Welfare Eligibility: Programs Treat Indian Tribal Trust Fund Payments Inconsistently (GAO/HRD-88-38)

Welfare Programs: Ineffective Federal Oversight Permits Costly Automated System Problems (GAO/IMTEC-92-29)

**Welfare to Work: Implementation and Evaluation of Transitional Benefits
Need HHS Action (GAO/HRD-92-118)**

**Welfare to Work: JOBS Participation Rate Data Unreliable for Assessing
States' Performance (GAO/HRD-93-73)**

**Welfare to Work: States Move Unevenly to Serve Teen Parents in JOBS
(GAO/HRD-93-74)**

GAO Contact: Sarah Jaggar, 202/512-7119

Medicare and Medicaid Issue Area (Budget Function 570)

Impact of GAO's Work

As health care financier and insurer, the federal government serves over 35 million elderly and disabled under Medicare, an estimated 33 million poor under Medicaid, and 9 million active and retired federal employees and their families under the Federal Employees Health Benefits Program. The government's primary programs for financing health care, Medicare and Medicaid, have a federal spending total estimated at over \$260 billion in fiscal year 1994; an additional \$70 billion in state and local funds is expected to be spent on Medicaid.

Our primary objective in reviewing these programs is to find ways to reduce costs without adversely affecting beneficiary access to quality care. Other important objectives are to (1) assess the processes used to control and identify fraud, abuse, and mismanagement in the programs; (2) evaluate quality-of-care assurance systems; and (3) review issues related to beneficiary access to care.

Throughout the 1980s, the Congress looked to Medicare for deficit reduction opportunities, and billions of dollars in monetary savings were achieved. Medicaid became a means of expanding health care services for those too poor to obtain them, particularly pregnant women and children. But, the 1990s are presenting new challenges to these programs and health care in general. Health care costs have skyrocketed, and the nation's uninsured-underinsured population continues to grow. New approaches for delivering health care services to millions of Americans are being tried. Our work continues to support many of the Medicare and Medicaid program initiatives and legislative changes undertaken by the Congress.

Omnibus Budget Reconciliation Act of 1993

In August 1993, the Omnibus Budget Reconciliation Act (OBRA) of 1993 became law. This act was the first major legislation affecting the health-financing programs since 1990 and contains a number of provisions related to our recommendations. For example, OBRA:

- Reduces Medicare's clinical diagnostic laboratory service fee schedule payment rates. The act phases in the reduction and will reach the level we recommended in 1996. This provision will result in 5-year savings to Medicare of \$3.3 billion.

- Implements our recommendation to equalize Medicare payment rates for anesthesia services whether anesthesiologists directly furnish the service or certified registered nurse anesthetists furnish it under the medical direction of an anesthesiologist. This action is being phased in over 5 years, and Medicare savings over that period will total \$429 million.
- Shifts certain supply items, used by Medicare patients in their homes, to a different fee schedule category as we had recommended. This will result in lower payment rates for the shifted items and achieve 5-year savings of \$97 million.
- Eliminates the Medicare requirement to set higher payment limits for hospital-based home health agencies than for freestanding agencies. We reported that the higher limits were not necessary to ensure beneficiary access to services. OBRA eliminated the differential in payment limits, which will reduce Medicare costs over 2 years by \$220 million.
- Prohibits physicians from referring Medicare and Medicaid beneficiaries to a variety of providers and suppliers if the physicians have ownership interests in them. We reported that physicians who had ownership interests in laboratories and diagnostic imaging facilities ordered more, and more expensive, services than physicians who did not have such ownership interests. The new provision will result in an estimated 5-year savings of \$387 million.
- Makes a number of changes to Medicare and Medicaid rules related to when employer-sponsored group health insurance pays for beneficiaries' services. These changes included standardizing the definition of employers covered by Medicare's secondary payor provisions, extending their effective dates, and establishing a registry of Medicare and Medicaid beneficiaries with coverage under employer-sponsored plans. We have reported and testified many times on problems with, and opportunities to improve, the Medicare and Medicaid secondary payer programs. Our work contributed to enactment of OBRA provisions. In total, the congressional actions in this area will result in a 5-year savings of \$5.6 billion.
- Clarifies, as we recommended, when anticancer drugs that are used in situations not covered by their Food and Drug Administration-approved labeling will be paid by Medicare. This will increase the uniformity of payment determinations across the country and ease administrative and financial burdens for beneficiaries and providers.

- Puts new limitations on how states distribute payments to hospitals with a disproportionate share of Medicaid and indigent patients. A hospital may not be designated as a disproportionate share hospital unless it has a Medicaid inpatient utilization rate of at least 1 percent. In addition, payments to disproportionate share hospitals may not exceed the cost of providing care less amounts received from Medicaid and the uninsured. Two recent reports on the disproportionate share program highlighted issues associated with the distribution of funds to hospitals participating in the program. Our work contributed to the legislative changes.
- Places additional restrictions on the transfer of assets by persons applying for Medicaid. The “look back” period for asset transfers is extended to 36 months. Individuals transferring assets within this period will have to wait an extended period before they are eligible to participate in Medicaid. Our report contributed to these changes. Total 5-year savings will total \$650 million.
- Requires states to recover the costs of nursing facility and other long-term care services furnished to Medicaid beneficiaries from the estates of such beneficiaries. The law further requires states to establish hardship procedures for waiver of recovery in cases where undue hardship would result. We recommended similar actions. Total 5-year savings will amount to \$310 million.

Other Monetary Benefits

During the year, we continued to monitor efforts by Medicare contractors to recover duplicate payments from providers and private insurers. Our previous work identified ways that the Health Care Financing Administration (HCFA), through its Medicare contractors, could recover several hundred million dollars in mistaken payments. So far, hospital and other providers have refunded \$462 million in outstanding credit balances. Also, Medicare contractors continue to recover payments for services that were subsequently determined to be the responsibility of private insurers. Backlogs of mistaken payments were reduced from over \$1 billion to about \$135 million. Our most recent testimony highlighted the difficulties in identifying beneficiaries with other health insurance and suggested approaches that HCFA should pursue in its efforts to obtain insurance information before payments are made.

Our review of Medicare audits of dialysis facility cost reports found that the audits were incomplete and had been poorly done. If the audits had been adequately performed, additional costs would probably have been disallowed, which would have resulted in a reduction of the median cost

per treatment. Our work relating to Medicare payments for braces and artificial limbs showed that there was no need to establish separate fees for professional services because Medicare's payment amounts for these items included a component for the practitioner's professional services.

Other fiscal year 1993 reports dealt with (1) HCFA management weaknesses relating to the lack of information on program safeguard activities, (2) changes in drug prices paid by health maintenance organizations and hospitals since the enactment of OBRA 1990 Medicaid drug rebate provisions, (3) Medicare payment rates for mammography, and (4) Medicaid drug fraud.

Access to Care

Virtually, all states have already established, or will soon establish, managed care programs for their low-income populations. Such programs can provide an opportunity to improve access while providing quality comparable to that provided by more-traditional fee-for-service programs. Our report and testimony showed that strong monitoring and oversight were needed to help ensure patient access.

Our report on Oregon's managed care program demonstrated the need for additional program safeguards. As a result, the Secretary of Health and Human Services required the state to provide assurances that the program has enough providers to serve the intended population and report on participating plans' quality assurance programs, financial viability, and disclosure of ownership.

Key Open Recommendations

Excessive Medicare Payments for Costly Technology

We recommended that HCFA (1) survey the technical component costs incurred by facilities providing radiology services and revise the fee schedule to more accurately reflect the costs incurred and (2) periodically adjust technical component payments to reflect changing costs, with annual payment reviews for procedures using high-cost technologies. This would save Medicare a significant amount of money and, even though costs per scan would decrease, providers would still realize profits because there would be fewer machines and utilization would rise.
(GAO/HRD-92-59)

Durable Medical Equipment

We recommended that HCFA develop and issue specific coverage criteria for durable medical equipment that it identifies as subject to unnecessary

payments. We also recommended that HCFA require physicians to provide narrative justifications for this equipment on certificates of medical necessity. These actions could substantially reduce Medicare expenditures. (GAO/HRD-92-64)

Special Payments to Teaching Hospitals

We reported that the extra payments to Medicare teaching hospitals were too high and that the Congress should reduce the percentage add-on payments that teaching hospitals received. About \$1 billion could be saved annually. (GAO/HRD-89-33)

Peer Review Program Monetary Penalty Provision

We recommended that the Congress amend the law to provide a fixed upper limit on the size of monetary penalties in lieu of the current cost-based limit. This would provide a more substantial penalty, and penalty amounts would be determined in the same manner as other provisions administered by the Inspector General of Health and Human Services. (GAO/HRD-89-18)

Medicare Program Safeguard Functions

Funding of Medicare's safeguard activities has not kept pace with program growth. As a result, opportunities to save hundreds of millions of dollars annually have been lost. The basic problem is that under deficit control legislation, increasing safeguard funding requires reducing federal expenditures in benefit programs or raising taxes. We recommended that, because safeguard activities were cost-effective, returning in savings over \$10 for every dollar spent on the activities, the Congress establish a process whereby increased funding of safeguard activities would not necessitate budget cuts in other areas. (GAO/HRD-91-67)

Medicaid Enrollment in the District of Columbia

We recommended that the Mayor of the District of Columbia establish a demonstration or pilot project focusing on the enrollment of Medicaid-eligible persons at hospitals. The project could (1) identify and describe the eligible patients having the most difficulty getting enrolled, (2) identify the assistance needs of these groups, and (3) test methods of providing these patients with needed assistance through outstationing of eligibility workers and other means. (GAO/HRD-93-28)

Medicaid Drug Fraud

We recommended that the Secretary of Health and Human Services direct the HCFA Administrator to develop an overall strategy to address prescription diversion as part of the larger problem of Medicaid fraud. This would highlight the importance of lessons learned from state initiatives and their applicability to health care in general. One key element of such a strategy might be the designation of a unit within HCFA responsible for (1) conducting continuing evaluations of state initiatives

targeting prescription diversion and other Medicaid fraud and
(2) providing guidance and technical assistance tailored to individual state
problems. (GAO/HRD-93-118)

**Related Products With
Open Recommendations:
Medicare and Medicaid**

Product Title

Alleged Lobbying Activities: Office for Substance Abuse Prevention
(GAO/HRD-93-100)

**District of Columbia: Barriers to Medicaid Enrollment Contribute to
Hospital Uncompensated Care** (GAO/HRD-93-28)

**Durable Medical Equipment: Specific HCFA Criteria and Standard Forms
Could Reduce Medicare Payments** (GAO/HRD-92-64)

Health Insurance: Vulnerable Payers Lose Billions to Fraud and Abuse
(GAO/HRD-92-69)

**Long-Term Care Case Management: State Experiences and Implications
for Federal Policy** (GAO/HRD-93-52)

**Medicaid Drug Fraud: Federal Leadership Needed to Reduce Program
Vulnerabilities** (GAO/HRD-93-118)

**Medicaid: Ensuring that Noncustodial Parents Provide Health Insurance
Can Save Costs** (GAO/HRD-92-80)

**Medicaid: HealthPASS: An Evaluation of a Managed Care Program for
Certain Philadelphia Recipients** (GAO/HRD-93-67)

**Medicaid: Oversight of Health Maintenance Organizations in the Chicago
Area** (GAO/HRD-90-81)

**Medicare: Excessive Payments Support the Proliferation of Costly
Technology** (GAO/HRD-92-59)

**Medicare: Experience Shows Ways to Improve Oversight of Health
Maintenance Organizations** (GAO/HRD-88-73)

Medicare: Further Changes Needed to Reduce Program and Beneficiary Costs (GAO/HRD-91-67)

Medicare: HCFA Needs to Take Stronger Actions Against HMOs Violating Federal Standards (GAO/HRD-92-11)

Medicare: HCFA Should Improve Internal Controls Over Part B Advance Payments (GAO/HRD-91-81)

Medicare: Indirect Medicare Education Payments Are Too High (GAO/HRD-89-33)

Medicare: Millions of Dollars in Mistaken Payments Not Recovered (GAO/HRD-92-26)

Medicare: One Scheme Illustrates Vulnerabilities to Fraud (GAO/HRD-92-76)

Medicare: Over \$1 Billion Should Be Recovered From Primary Health Insurers (GAO/HRD-92-52)

Medicare: Payments for Clinical Laboratory Test Services Are Too High (GAO/HRD-91-59)

Medicare Physician Payment: Geographic Adjusters Appropriate But Could Be Improved With New Data (GAO/HRD-93-93)

Medicare: PRO Review Does Not Assure Quality of Care Provided by Risk HMOs (GAO/HRD-91-48)

Medicare: Reasonableness of Health Maintenance Organization Payments Not Assured (GAO/HRD-89-41)

Medicare: Renal Facility Cost Reports Probably Overstate Costs of Patient Care (GAO/HRD-93-70)

Medicare: Separate Payment for Fitting Braces and Artificial Limbs Is Not Needed (GAO/HRD-93-98)

Medicare: Statutory Modifications Needed for the Peer Review Program Monetary Penalty (GAO/HRD-89-18)

Chapter 3
Improving Human Resource Programs

Medicare: Variations in Payments to Anesthesiologists Linked to Anesthesia Time (GAO/HRD-91-43)

Screening Mammography: Higher Medicare Payments Could Increase Costs Without Increasing Use (GAO/HRD-93-50)

GAO Contact: Sarah F. Jaggar, 202/512-7119

National and Public Health Issue Area (Budget Function 550)

Impact of GAO's Work

The federal government is the guardian of the public health. Among its functions in this role are providing research funds, support for educating and training health professionals, and surveillance of contagious diseases; overseeing food and drugs; providing block grants to states for mental health services, drug and alcohol programs, and maternal and child health services; and providing health care services to underserved areas and population groups. The Public Health Service, through its numerous administrations and agencies, carries out most of these tasks.

Health Insurance Reform

Our work has made a significant contribution to the debate on health insurance reform as it relates to affordability and availability of health care. We issued reports that discussed approaches to addressing rising health care costs and declining availability of health insurance. We have continued to look at foreign, state, and local models of reform that was combined with earlier work. Our reviews of German health care reform and superior access and cost containment in Rochester, New York, suggest that universal access to health insurance is an achievable goal entailing changes in the role of government, the structure of the health finance system, and the financial responsibilities of individuals and employers.

We have also supported congressional oversight of the Public Health Service. Our work has pointed out the need for more sustained and systemic management attention by the Department of Health and Human Services (HHS) in the issuance of Food and Drug Administration (FDA) regulations, in the regulation of hospital sterilants, and in monitoring the national organ transplant program.

During fiscal year 1993, the results of much of our work were presented to the Speaker of the House of Representatives and the Majority Leader of the Senate in a transition report on health care reform. The report discussed major policy, management, and program issues facing the Congress and the new administration.

Key Open Recommendations

Organ Transplants

In our April 1993 report, we identified weaknesses in the national system, established by federal legislation, to increase the supply of transplant donor organs (such as kidneys and hearts) and ensure an equitable distribution of organ donations. We found that some organ procurement organizations did not follow the policy for ranking potential donor recipients, did not use areawide lists when selecting patients to receive organs, and did not keep documentation of their selection decisions. As a result of this practice, some higher-ranked patients at transplant centers that were not in the selection process could miss their chance of getting an organ transplant. We recommended that HHS (1) require procurement organizations to use established criteria for allocating donor organs and selecting organ recipients and (2) establish criteria for measuring the effectiveness of organ procurement organizations. (GAO/HRD-93-56)

FDA Sterilants Regulation

In June 1993, we reported on FDA's regulation of hospital sterilants and disinfectants used to clean medical instruments. These products are supposed to protect patients from serious infections that can result when unsterile instruments are used in treating them. FDA requires manufacturers to submit evidence that their products are safe and effective in killing harmful microorganisms before they are marketed. We found that only a few sterilant and disinfectant manufacturers had registered their products with FDA and that there were hundreds of products on the market that had not been authorized by FDA, as required by law. We recommended that the FDA Commissioner ensure that all current and future manufacturers of sterilants and disinfectants comply with the requirements for marketing their products. (GAO/HRD-93-79)

Drug Abuse Data

Our recent review of the three major sources of information on use of illegal drugs showed that the nation lacked good evidence on which to gauge progress in drug control. Surveys of households and high school students do not cover the populations at highest risk and, for those who are surveyed, self-reports of drug use are questionable. We recommended that the Secretary of Health and Human Services make new efforts to validate the commonly used self-report surveys, that the Congress change current laws to require less frequent collection of data on the general population, and that the Secretary of Health and Human Services expand special studies of high-risk groups to fill the gaps in current surveys. (GAO/PEMD-93-18)

**Related Products With
Open Recommendations:
National and Public Health**

Product Title	Access to Health Care: States Respond to Growing Crisis (GAO/HRD-92-70)
	ADMS Block Grant: Drug Treatment Services Could Be Improved by New Accountability Program (GAO/HRD-92-27)
	Adolescent Drug Use Prevention: Common Features of Promising Community Programs (GAO/PEMD-92-2)
	Biotechnology: Managing the Risks of Field Testing Genetically Engineered Organisms (GAO/RCED-88-27)
	Board and Care Homes: Elderly at Risk From Mishandled Medications (GAO/HRD-92-45)
	Child Abuse: Prevention Programs Need Greater Emphasis (GAO/HRD-92-99)
	Childhood Immunization: Opportunities to Improve Immunization Rates at Lower Cost (GAO/HRD-93-41)
	Community Health Centers: Administration of Grant Awards Needs Strengthening (GAO/HRD-92-51)
	Drug Abuse Research: Federal Funding and Future Needs (GAO/PEMD-92-5)
	Drug Abuse: Research on Treatment May Not Address Current Needs (GAO/HRD-90-114)
	Drug Treatment: Despite New Strategy, Few Federal Inmates Receive Treatment (GAO/HRD-91-116)
	Early Intervention: Federal Investments Like WIC Can Produce Savings (GAO/HRD-92-18)
	FDA Regulations: Sustained Management Attention Needed to Improve Timely Issuance (GAO/HRD-92-35)

Food Safety and Quality: FDA Strategy Needed to Address Animal Drug Residues in Milk (GAO/RCED-92-209)

Food Safety and Quality: Uniform, Risk-based Inspection System Needed to Ensure Safe Food Supply (GAO/RCED-92-152)

Food Safety: Building a Scientific, Risk-Based Meat and Poultry Inspection System (GAO/T-RCED-93-22)

Freedom of Information: FDA's Program and Regulations Need Improvement (GAO/HRD-92-2)

Health Information Systems: National Practitioner Data Bank Continues to Experience Problems (GAO/IMTEC-93-1)

Health Insurance: Vulnerable Payers Lose Billions to Fraud and Abuse (GAO/HRD-92-69)

Hospital Sterilants: Insufficient FDA Regulation May Pose a Public Health Risk (GAO/HRD-93-79)

Long-Term Care Case Management: State Experiences and Implications for Federal Policy (GAO/HRD-93-52)

Long-Term Care Insurance: Risks to Consumers Should Be Reduced (GAO/HRD-92-14)

Management of HHS: Using the Office of the Secretary to Enhance Departmental Effectiveness (GAO/HRD-90-54)

Maternal and Child Health: Block Grant Funds Should Be Distributed More Equitably (GAO/HRD-92-5)

Medical Technology: For Some Cardiac Pacemaker Leads, the Public Health Risks Are Still High (GAO/PEMD-92-20)

Medical Technology: Quality Assurance Needs Stronger Management Emphasis and Higher Priority (GAO/PEMD-92-10)

Medical Technology: Quality Assurance Systems and Global Markets (GAO/PEMD-93-15)

Medical Waste Regulation: Health and Environmental Risks Need to Be Fully Assessed (GAO/RCED-90-86)

Methadone Maintenance: Some Treatment Programs Are Not Effective; Greater Federal Oversight Needed (GAO/HRD-90-104)

Nuclear Health and Safety: More Attention to Health and Safety Needed at Pantex (GAO/RCED-91-103)

Occupational Safety & Health: OSHA Action Needed to Improve Compliance With Hazard Communication Standard (GAO/HRD-92-8)

Organ Transplants: Increased Effort Needed to Boost Supply and Ensure Equitable Distribution of Organs (GAO/HRD-93-56)

Pesticides: Need To Enhance FDA's Ability To Protect the Public From Illegal Residues (GAO/RCED-87-7)

Public Health Service: Evaluation Set-Aside Has Not Realized Its Potential to Inform the Congress (GAO/PEMD-93-13)

Public Housing: Housing Persons With Mental Disabilities With the Elderly (GAO/RCED-92-81)

State Health Care Reform: Federal Requirements Influence State Reforms (GAO/T-HRD-92-55)

Truck Transport: Little Is Known About Hauling Garbage and Food in the Same Vehicles (GAO/RCED-90-161)

Improving Justice and General Government Programs

Administration of Justice Issue Area (Budget Function 750)

GAO Contact: Henry Wray, 202/512-5156

Impact of GAO's Work

The administration of justice issue area encompasses a wide range of federal activities, including all (1) civil and criminal law enforcement, such as antitrust, firearms licensing, and drug abuse; (2) litigative and judicial activities, such as sentencing reform; (3) correctional activities; and (4) immigration control and criminal justice assistance.

Federal Law Enforcement Activities

As part of the Congress' effort to identify successful drug abuse control programs, we examined the Treatment Alternatives to Street Crime Program. We found that Treatment Alternatives to Street Crime appeared promising as a way to help reduce offender drug use. Several barriers to Treatment Alternatives to Street Crime Program implementation exist, however, including disagreement on how Treatment Alternatives to Street Crime should be funded and lack of impact because Treatment Alternatives to Street Crime Programs are not located in many areas that have major drug problems. In its 1992 National Drug Control Strategy, the Office of National Drug Control Policy (ONDCP) also believed that Treatment Alternatives to Street Crime had promise and recommended that Treatment Alternatives to Street Crime be expanded. ONDCP has not, however, taken any specific actions to expand Treatment Alternatives to Street Crime. We recommended that ONDCP take the lead on expanding Treatment Alternatives to Street Crime. We also recommended that the ONDCP Director, in concert with relevant federal and state officials, identify additional cities that might benefit from Treatment Alternatives to Street Crime and reach agreement on Treatment Alternatives to Street Crime funding. ONDCP plans, in its 1993 interim drug strategy, to emphasize the need for additional Treatment Alternatives to Street Crime Programs.

In the area of inspecting firearms licenses, we urged the Bureau of Alcohol, Tobacco, and Firearms (ATF) to randomly sample and inspect dealer licensees in order to obtain information that could help ATF better manage its compliance inspection efforts. In that regard, ATF initiated an effort to obtain statistically valid information with which it could make projections and provide more accurate information to the Congress about the dealer licensee universe.

Regarding processing applicants for new firearms licenses, we urged ATF to expedite issuance of licenses to applicants who passed required

background checks but for whom ATF field offices determined a field inspection was not necessary. Subsequently, ATF revised its license-processing procedures to ensure expedited license issuances when such circumstances were met.

Our work on white-collar crime continued to focus on the federal government's response to the bank and thrift fraud crisis. We pointed out that fraud and wrongdoing played a significant role in the financial institution crisis and called for enhanced, coordinated efforts by Justice, Treasury, the Resolution Trust Corporation (RTC), and the Federal Deposit Insurance Corporation (FDIC).

The collection of fines and restitution ordered in criminal cases continues to be a problem. The great majority of fines and restitution remain unpaid. Criminal debt collection is plagued by multiple agency involvement, unclear delegations of authority, and the lack of a centralized collection and tracking system. The U.S. Courts National Fine Center is designed, in part, to address such problems. We reported, however, that implementation of the Fine Center's efforts has been delayed, in part because of the poor state of records on criminal debts.

We have carried out a significant body of work in money laundering focusing primarily on improvements in enforcing the provisions of the Bank Secrecy Act and section 6050I of the Tax Code and ways to better use the reports required by these laws. We called for increasing involvement of the states in money-laundering enforcement and recommended improvements that would result in increased state use of federal money-laundering reports.

Federal Litigative and Judicial Activities

The Judicial Conference has adopted our recommendation that it provide the Congress data explaining the policies, formal and informal, it uses to assess the need for additional judgeships. It has also begun to develop a more accurate, useful measure of appellate judge workload, as recommended.

Federal Correctional Activities

The Bureau of Prison's (BOP) total inmate population is growing at the rate of about 700 inmates per month. To keep pace without increasing overcrowding, BOP would need to open the equivalent of one new low-security facility every month. In response to our recommendations, BOP established a double-bunking policy in 1991, which saved about \$210 million for existing institutions and is expected to save about \$260 million in new construction through fiscal year 1994. BOP revised the

policy further to fully double-bunk minimum-security and low-security facilities and to include some double-bunking at administrative-level and high-security facilities, thus saving additional funds because new capacity requirements are further reduced.

By taking full advantage of less costly halfway houses for inmates with short sentences or inmates nearing the end of their prison terms, BOP can decrease prison crowding without building new prisons. As a result of our recommendations, BOP implemented new guidance on the use of halfway houses and has increased its use of total available contract beds from 73 percent in 1991 to 87 percent as of November 1992.

Key Open Recommendations

Federal Law Enforcement

In our report on drug use measurement, we recommended to the Congress that part A of title V of the Public Health Service Act be amended to provide that the Secretary of Health and Human Services collect survey data only biennially, rather than each year, on the national prevalence of the various forms of substance abuse among high school students and the general population. But if local or regional indicators portend an increase in drug use, then the Secretary should have the authority to initiate new or augment current studies to determine the nature and the degree of the problem.

We also recommended that the Secretary of Health and Human Services (1) develop or improve supplementary data sources to more appropriately determine heroin and cocaine prevalence patterns and trends; (2) design and conduct a systematic program for the study of drug use prevalence rates among underrepresented high-risk groups; and (3) give high priority to validating self-reports of the use of illicit drugs, focusing particularly on objective techniques, such as hair testing. In addition, we recommended that the Director, National Institute of Justice, (1) review the practicality of improving the Drug Use Forecasting design and (2) give priority to creating a drug use forecasting arrestee data base that could be generalized to booked arrestees in the geographic areas surveyed.
(GAO/PEMD-93-18)

In our testimony on misuse of criminal justice information contained in the National Crime Information Center (NCIC), we identified sufficient examples of misuse about which we recommended that the Congress

enact legislation with strong criminal sanctions directed specifically at the misuse of NCIC. Further, we recommended that the Federal Bureau of Investigation Director and the NCIC Advisory Policy Board re-evaluate the security specifications in the NCIC Security Policy and, as a minimum, amend the policy to endorse and encourage state and local users to enhance their security features. (GAO/T-GGD-93-41)

The federal government's response to the bank and thrift fraud crisis is not as coordinated as it should be. Justice's Special Counsel for Financial Institution Fraud has not been effectively managed this response from a governmentwide perspective. We recommended that the Special Counsel determine the adequacy of Justice and non-Justice resources devoted to financial institution fraud and develop measures for gauging the overall effectiveness of the government's response. (GAO/GGD-93-48)

As a part of efforts to address wrongdoing in connection with failed thrifts, RTC is responsible for pursuing professional liability claims against those whose alleged professional misconduct caused losses to failed thrifts. But, certain RTC management actions have disrupted the professional liability program. RTC needs to take steps to stabilize this program including working with FDIC to ensure an orderly transfer of functions to FDIC. (GAO/T-GGD-92-42)

National Fine Center is designed to address a number of problems with the collection of criminal fines and restitution orders. Full implementation of National Fine Center has been delayed, and the design has security flaws. We recommended that the Administrative Office of the Courts take a number of steps to improve the security of the system to better ensure unauthorized access to the sensitive data. (GAO/GGD-93-95)

Greater involvement by state law enforcement in addressing money laundering would help reduce the profitability of crime. The federal government could do more to help the states provide data from reports required by the Bank Secrecy Act and section 6050I of the Internal Revenue Code. We recommended that the Congress amend the disclosure provisions of the Internal Revenue Code to give the Secretary of Treasury permanent authority to disclose information reported on Internal Revenue Service Forms 8300 and to allow states access to the data on the same basis as federal law enforcement agencies. (GAO/GGD-93-1)

Federal Litigative and Judicial Activities

Our report on sentencing guidelines identified major shortcomings in the data available to determine the impact of the guidelines. We recommended

that the Congress direct the U.S. Sentencing Commission to continue its efforts to analyze sentencing disparity under the sentencing guidelines, particularly unwarranted disparity. Action has not yet been taken. (GAO/GGD-92-93)

Immigration Control

In our general management report on the Immigration and Naturalization Service (INS), we recommended that the Commissioner of INS set priorities within the framework of the overall INS mission and reorganize the agency's field structure. We also made recommendations to reduce the overlap and the duplication in the enforcement program, improve allocation of resources in the examination and inspection programs, and strengthen the financial and information management programs. INS has taken steps to address some of these recommendations, particularly in the financial management area. (GAO/GGD-91-28)

Immigration Management

Unless the programs designed to prevent aliens from illegally entering the country and to remove those who have no legal basis to remain here are made more effective, INS has little hope of detaining any more than a small fraction of the criminal and other aliens meeting its detention criteria. Inevitable, proposals to tighten the nation's borders and to expedite the expulsion of deportable aliens have to consider their rights to constitutionally based protections and must deal with complex and sensitive issues, such as potential strains in relationships with Mexico and other nations, humanitarian concerns relating to equitable treatment of aliens, and difficult budgetary tradeoffs. Nonetheless, until the Congress comes to grips with these problems and tradeoffs, little progress in resolving detention issues can be expected. The Congress may therefore wish to address border security and deportation issues in the course of future deliberations on immigration policy, specifically: How tight do we want our borders to be? How aggressively should we expel deportable aliens? How much additional funding are we willing to invest in these efforts? (GAO/GGD-92-85)

Customs Service

Our general management review of the Customs Service found that Customs cannot adequately ensure that it is meeting its responsibilities to combat unfair foreign trade practices or protect the public from unsafe goods because of interrelated problems in the management culture, including weak mission planning and outdated organizational structures. In September 1992, we recommended that Customs institute a strategic management process to set priorities for its trade enforcement strategy, establish measurable performance objectives, and monitor progress toward achieving them. Customs has formed task forces to address these,

but it has made little progress to date. We also recommended that Customs evaluate the adequacy of its current headquarters organizational structure and its relationship to the new trade enforcement strategy that it will develop. In addition, we recommended that the Congress remove existing legislative provisions prohibiting Customs from planning changes to its field structure.

Customs has a number of actions in process responsive to our recommendations. It has developed a draft 5-year strategic plan and plans to develop measures to assess performance against the plan's goals. It has formed a task force to establish a statistically valid approach to assessing compliance with the trade laws. The preliminary results of the task force's work confirms our findings that Customs has a greater noncompliance problem than it realized. Customs sought and obtained congressional repeal of the legislative provisions prohibiting it from planning changes to its field structure. It now has formed a task force to develop a proposal for a new organizational structure. (GAO/GGD-92-123)

Related Products With Open Recommendations: Administration of Justice

Product Title

Asset Forfeiture: Improved Guidance Needed for Use of Shared Assets
(GAO/GGD-92-115)

Asset Forfeiture: Noncash Property Should Be Consolidated Under the
Marshals Service (GAO/GGD-91-97)

Bank and Thrift Criminal Fraud: The Federal Commitment Could Be
Broadened (GAO/GGD-93-48)

Bank and Thrift Failures: FDIC and RTC Could Do More to Pursue
Professional Liability Claims (GAO/T-GGD-92-42)

Bankruptcy Administration: Justification Lacking for Continuing Two
Parallel Programs (GAO/GGD-92-133)

Child Abuse: Prevention Programs Need Greater Emphasis (GAO/HRD-92-99)

Customs Service and INS: Dual Management Structure for Border Inspections Should Be Ended (GAO/GGD-93-111)

Customs Service: Comments on the Customs Modernization and Informed Compliance Act (GAO/T-GGD-92-22)

Customs Service: 1911 Act Governing Overtime Is Outdated (GAO/GGD-91-96)

Customs Service: Trade Enforcement Activities Impaired by Management Problems (GAO/GGD-92-123)

Defense Procurement Fraud: Justice's Overall Management Can Be Enhanced (GAO/GGD-88-96)

Document Security: Justice Can Improve Its Controls Over Classified and Sensitive Documents (GAO/GGD-93-134)

Drug Abuse: Research on Treatment May Not Address Current Needs (GAO/HRD-90-114)

Drug Control: Communications Network Funding and Requirements Uncertain (GAO/NSIAD-92-29)

Drug Control: Inadequate Guidance Results in Duplicate Intelligence Production Efforts (GAO/NSIAD-92-153)

Drug Control: Treatment Alternatives Program for Drug Offenders Needs Stronger Emphasis (GAO/GGD-93-61)

Drug Treatment: Despite New Strategy, Few Federal Inmates Receive Treatment (GAO/HRD-91-116)

Drug Use Measurement: Strengths, Limitations, and Recommendations for Improvement (GAO/PEMD-93-18)

Drug War: Drug Enforcement Administration Staffing and Reporting in Southeast Asia (GAO/NSIAD-93-82)

EEO at Justice: Progress Made but Underrepresentation Remains Widespread (GAO/GGD-91-8)

Federal Jail Bedspace: Cost Savings and Greater Accuracy Possible in the Capacity Expansion Plan (GAO/GGD-92-141)

Federal Judiciary: How the Judicial Conference Assesses the Need for More Judges (GAO/GGD-93-31)

Federal Prisons: Inmate and Staff Views on Education and Work Training Programs (GAO/GGD-93-33)

Federal Tax Deposit System: IRS Can Improve the Federal Tax Deposit System (GAO/AFMD-93-40)

Financial Audit: IRS Significantly Overstated Its Accounts Receivable Balance (GAO/AFMD-93-42)

Illegal Aliens: Despite Data Limitations, Current Methods Provide Better Population Estimates (GAO/PEMD-93-25)

Immigration Control: Immigration Policies Affect INS Detention Efforts (GAO/GGD-92-85)

Immigration Management: Strong Leadership and Management Reforms Needed to Address Serious Problems (GAO/GGD-91-28)

Immigration Reform: Verifying the Status of Aliens Applying for Federal Benefits (GAO/HRD-88-7)

Information Management: Immigration and Naturalization Service Lacks Ready Access to Essential Data (GAO/IMTEC-90-75)

Justice Automation: Tighter Computer Security Needed (GAO/IMTEC-90-69)

Money Laundering: State Efforts To Fight It Are Increasing But More Federal Help Is Needed (GAO/GGD-93-1)

National Crime Information Center: Legislation Needed to Deter Misuse of Criminal Justice Information (GAO/T-GGD-93-41)

National Fine Center: Expectations High, but Development Behind Schedule (GAO/GGD-93-95)

Office of Justice Programs: Discretionary Grants Reauthorization
(GAO/GGD-93-23)

Prison Inmates: Better Plans Needed Before Felons Are Released
(GAO/GGD-93-92)

Resolution Trust Corporation: Additional Monitoring of Basic Ordering
Agreements Needed (GAO/GGD-93-107)

Resolution Trust Corporation: Affordable Multifamily Housing Program
Has Improved but More Can Be Done (GAO/GGD-92-137)

Resolution Trust Corporation: A More Flexible Contracting-Out Policy Is
Needed (GAO/GGD-91-136)

Resolution Trust Corporation: Assessing Portfolio Sales Using
Participating Cash Flow Mortgages (GAO/GGD-92-33BR)

Resolution Trust Corporation: Asset Pooling and Marketing Practices Add
Millions to Contract Costs (GAO/GGD-93-2)

Resolution Trust Corporation: Better Assurance Needed That Contractors
Meet Fitness and Integrity Standards (GAO/GGD-93-127)

Resolution Trust Corporation: Controls Over Asset Valuations Do Not
Ensure Reasonable Estimates (GAO/GGD-93-80)

Resolution Trust Corporation: Effectiveness of Auction Sales Should Be
Demonstrated (GAO/GGD-92-7)

Resolution Trust Corporation: Loan Portfolio Pricing and Sales Process
Could Be Improved (GAO/GGD-93-116)

Resolution Trust Corporation: 1992 Washington/Baltimore Auctions
Planned and Managed Poorly (GAO/GGD-93-115)

Resolution Trust Corporation: Performance Assessment for 1991
(GAO/T-GGD-92-14)

Resolution Trust Corporation: Progress Under Way in Minority and
Women Outreach Program for Outside Counsel (GAO/GGD-91-121)

Resolution Trust Corporation: Subcontractor Cash Management Practices Violate Policy and Reduce Income (GAO/GGD-93-7)

Resolution Trust Corporation: Survey Results on RTC's Communication and Real Estate Marketing (GAO/GGD-92-134BR)

Resolution Trust Corporation: Timelier Action Needed to Locate Missing Asset Files (GAO/GGD-93-76)

Sentencing Guidelines: Central Questions Remain Unanswered (GAO/GGD-92-93)

Tax Administration: IRS' Management of Seized Assets (GAO/T-GGD-92-65)

Thrift Failures: Actions Needed to Stabilize RTC's Professional Liability Program (GAO/GGD-93-105)

U.S. Attorneys: Better Models Can Reduce Resource Disparities Among Offices (GAO/GGD-91-39)

U.S. Customs Service: Limitations in Collecting Harbor Maintenance Fees (GAO/GGD-92-25)

War on Drugs: Federal Assistance to State and Local Drug Enforcement (GAO/GGD-93-86)

Federal Human
Resource
Management Issue
Area (Budget
Function 800)

GAO Contact: Nancy R. Kingsbury, 202/512-4268

Impact of GAO's Work

In 1993, the federal government spent about \$150 billion in pay and benefits for over 3 million civilian employees. The effectiveness of federal agencies in achieving their missions depends largely on the quality, the motivation, and the performance of these employees. Recruiting, hiring, training, and managing a quality work force is the foundation of effective governance. In recent years, several significant actions have been taken on the basis of our recommendations.

Propriety of Conversions

In our February 1992 report, we noted that the Office of Personnel Management (OPM) had established a review process to ensure that conversions of appointments, from political to career, adhered to merit system principles but that not all of OPM's examining offices had implemented the process. Consequently, conversions whose propriety was questionable had not been reviewed by OPM. We recommended that the OPM Director ensure that (1) procedures were established in all of its examining offices to identify and review conversions within their jurisdictions and (2) the review process be revised to include the pre-appointment review of conversions at agencies that OPM had delegated examining authority to. On February 21, 1992, OPM implemented our recommendations, providing greater assurance that career appointments granted political appointees were based on merit principles.

Health Benefits Program

In July 1991 and February 1992, we reported that stronger controls were needed to reduce the risk of fraud and abuse and administrative costs in the Federal Employees Health Benefits Program (FEHBP).

Program funds paid to fee-for-service health insurance plans are highly vulnerable to fraud and abuse and, in 1988, FEHBP paid an operational expense ratio that was 51 percent higher than the average ratio for other large insured health benefits programs we reviewed and 89 percent higher than the average ratio for programs that were self-insured.

We have made numerous recommendations to help OPM strengthen controls over FEHBP. To strengthen controls against fraud and abuse, OPM

developed minimum internal control and quality assurance standards for financial claims and processing controls, which will become formal parts of the 1994 service charge negotiations. Moreover, it is working with the Office of Management and Budget on procedures to implement cost accounting standards in the program and intends to make them effective with the 1995 contracts. OPM also now requires carriers to submit semiannual reports on the number and the status of fraud and abuse cases pursued and is continuing to work with carriers and its Office of the Inspector General to implement a sanctions program. Finally, in February 1993, OPM started an activity to prevent payments on contracts between debarred providers and carriers.

Also, as a result of our recommendations, OPM negotiated administrative expense cuts with the fee-for-service carriers for 1993 and the next 2 contract years. The administrative expense reductions represent permanent decreases in the administrative expense bases such that, over the 3 years, FEHBP will save \$43.3 million.

Service at Federal Job Information Centers

In a report assessing the services job seekers were receiving at OPM's Federal Job Information Centers, we recommended several steps OPM should take to give the Centers greater customer focus. Consistent with our recommendations, on September 14, 1992, OPM reported to the Chairs of the cognizant congressional subcommittees that several steps had been taken at some Centers in response to our recommendations. These included (1) expanding Centers' hours to coincide with the hours of the buildings in which they were located, (2) ensuring there were enough chairs and tables to accommodate job seekers, (3) improving telephone access, and (4) creating an Employment Information Task Force to examine the staffing situation along with other issues addressed in our report.

Drug-Testing Program Costs

In our November 1992 report discussing opportunities to lower drug testing program costs, we recommended that the Secretary of Health and Human Services reduce the required rate of blind proficiency testing performed by agencies. The Department of Health and Human Services (HHS) agreed with this and, in January 1993, published proposed revisions to the mandatory guidelines that would reduce the requirement for agencies to maintain a minimum of 10-percent blind samples to 3 percent. According to HHS officials, this change could significantly reduce the costs associated with maintaining a blind sample program without affecting the ability to monitor a laboratory's performance. Final issuance of the revised guidelines is expected for late 1993.

Experts and Consultants

In a governmentwide review of expert and consultant appointments, we found that 35 percent were inappropriate. (GAO/GGD-91-99)

In 1991, we recommended that, to improve compliance with federal requirements governing the expert and consultant appointing authority, OPM revise Federal Personnel Manual (FPM) guidance to (1) define the meaning of operating duties, (2) give examples of nonoperating duties that experts and consultants may perform, and (3) specify that experts and consultants may not do routine and continuous duties that are the responsibility of regular employees. OPM agreed with our recommendations and, on January 4, 1993, revised guidance through FPM Letter 304-4.

Key Open
Recommendations

If the American people are to receive the high-quality government services they deserve, continuing attention needs to be given to the manner in which federal employees are managed. Improvements in the management of federal human resources can yield substantial improvements to government programs. We have made numerous recommendations to OPM and other agencies to improve the quality of the federal work force. The following are areas in which we believe further action or monitoring is needed to adequately respond to our recommendations.

Performance Management

Although federal agencies are diverse and have different missions, they are required to use the same general performance management system. A general framework for federal performance management systems seems appropriate. Agencies believe that, within this framework, however, they should be able to tailor specific elements to reflect such factors as their missions, organizational structure, and the way their work is done. The lack of sufficient flexibility for agencies to design their own performance management systems has created problems in managing and improving employee performance. As suggested in our February 1993 report, we believe that when the Congress considers legislation concerning the Performance Management and Recognition System, extending Pay-for-Performance to General Schedule employees, and other performance management legislation, it should consider giving agencies the flexibility needed to tailor performance management systems to their own work environments. (GAO/GGD-93-57)

Equal Employment Opportunity

Data on the gender, race, and national origin of applicants for federal employment—known as applicant flow data—are not adequately collected. During the early 1980s, OPM and the Equal Employment

Opportunity Commission (EEOC) required agencies to collect the data using an OPM form. However, authority to use the form expired and OPM and EEOC no longer require agencies to collect applicant flow data. In 1989, EEOC proposed a directive that would have required agencies to collect applicant flow data but, at OPM's request, did not issue the proposed directive. In our October 1991 testimony, we recommended that OPM, in cooperation with EEOC, examine options for collecting and analyzing applicant flow data and take prompt appropriate action. (GAO/T-GGD-92-2)

Under court order, OPM is collecting and analyzing applicant flow data from persons who take the Administrative Careers With America examination. OPM data show, however, that this examination produces a small percentage of all federal new hires. Additional stages toward automating the hiring process include other examinations and government hiring authorities that are planned. The extent to which applicant flow data will be collected during these additional stages is under consideration.

Personnel Management Evaluations

As discussed in our December 1992 report, OPM is not providing sufficient oversight of the federal personnel system to ensure compliance with laws, rules, and regulations. Passage of the Civil Service Reform Act of 1978 allowed the government's personnel system to become more decentralized and increased the ability of personnel officers to respond quickly and efficiently to line managers. It also increased the risk that federal personnel requirements will be misinterpreted, unknown, or ignored by those responsible for carrying them out. This can result in legal or merit system violations, inadequate agency mission support, and miscalculated payments.

Although OPM is responsible for administering and protecting the federal personnel system, reduced staff and resources has forced it to depend on agencies to shoulder much of the responsibility. This would be reasonable if appropriate personnel management evaluation standards existed and were followed and if all agencies did personnel management evaluations regularly. In our December 1992 report, however, we stated that varying degrees of personnel management evaluation activity existed among 35 of the largest federal agencies and that OPM had not issued standards by which to adequately judge quality. (GAO/GGD-93-24)

We believe that, to improve oversight of the federal personnel system, OPM needs to assess standards for evaluation systems, make changes where

needed, and develop qualifications for evaluators and assess the training available to them.

**Related Products With
Open Recommendations:
Federal Human Resource
Management**

Product Title

Acquisition Management: Implementation of the Defense Acquisition Workforce Improvement Act (GAO/NSIAD-93-129)

AID Management: EEO Issues and Protected Group Underrepresentation Require Management Attention (GAO/NSIAD-93-13)

AID Management: Strategic Management Can Help AID Face Current and Future Challenges (GAO/NSIAD-92-100)

Alleged Lobbying Activities: Office for Substance Abuse Prevention (GAO/HRD-93-100)

Apprenticeship Training: Administration, Use, and Equal Opportunity (GAO/HRD-92-43)

Aviation Safety: Limited Success Rebuilding Staff and Finalizing Aging Aircraft Plan (GAO/RCED-91-119)

Aviation Safety: Problems Persist in FAA's Inspection Program (GAO/RCED-92-14)

Customs Service and INS: Dual Management Structure for Border Inspections Should Be Ended (GAO/GGD-93-111)

Customs Service: 1911 Act Governing Overtime Is Outdated (GAO/GGD-91-96)

Department of Education: Long-Standing Management Problems Hamper Reforms (GAO/HRD-93-47)

EEO at Justice: Progress Made but Underrepresentation Remains Widespread (GAO/GGD-91-8)

**Employee Conduct Standards: Some Outside Activities Present
Conflict-of-Interest Issues (GAO/GGD-92-34)**

**Employee Drug Testing: Opportunities Exist to Lower Drug-Testing
Program Costs (GAO/GGD-93-13)**

**Energy Management: Using DOE Employees Can Reduce Costs for Some
Support Services (GAO/RCED-91-186)**

**FAA Staffing: Improvements Needed in Estimating Air Traffic Controller
Requirements (GAO/RCED-88-106)**

**Federal Affirmative Action: Better EEOC Guidance and Agency Analysis of
Underrepresentation Needed (GAO/GGD-91-86)**

**Federal Affirmative Employment: Status of Women and Minority
Representation in the Federal Workforce (GAO/T-GGD-92-2)**

**Federal Employees' Compensation Act: Need to Increase Rehabilitation
and Reemployment of Injured Workers (GAO/GGD-92-30)**

**Federal Employment: Displaced Federal Workers Can Be Helped by
Expanding Existing Programs (GAO/GGD-92-86)**

**Federal Employment: Inquiry Into Sexual Harassment Issues at Selected
VA Medical Centers (GAO/GGD-93-119)**

**Federal Employment: Poor Service Found at Federal Job Information
Centers (GAO/GGD-92-116)**

**Federal Health Benefits Program: Stronger Controls Needed to Reduce
Administrative Costs (GAO/GGD-92-37)**

Federal Hiring: Does Veterans' Preference Need Updating? (GAO/GGD-92-52)

Federal Labor Relations: A Program in Need of Reform (GAO/GGD-91-101)

**Federal Lobbying: Federal Regulation of Lobbying Act of 1946 Is
Ineffective (GAO/T-GGD-91-56)**

Federal Lobbying: Lobbying the Executive Branch (GAO/T-GGD-91-70)

Federal Performance Management: Agencies Need Greater Flexibility in Designing Their Systems (GAO/GGD-93-57)

Federal Personnel Management: OPM Reliance on Agency Oversight of Personnel System Not Fully Justified (GAO/GGD-93-24)

Federal Recruiting and Hiring: Authority for Higher Starting Pay Useful but Guidance Needs Improvement (GAO/GGD-91-22)

Federal Recruiting and Hiring: Making Government Jobs Attractive to Prospective Employees (GAO/GGD-90-105)

Federal Workforce: Inappropriate Use of Experts and Consultants at Selected Civilian Agencies (GAO/GGD-91-99)

Financial Disclosure: Implementation of Statute Governing Judicial Branch Personnel (GAO/GGD-93-85)

Fraud and Abuse: Stronger Controls Needed in Federal Employees Health Benefits Program (GAO/GGD-91-95)

General Services Administration: Actions Needed to Improve Protection Against Fraud, Waste, and Mismanagement (GAO/GGD-92-98)

General Services Administration: Sustained Attention Required to Improve Performance (GAO/GGD-90-14)

Government National Mortgage Association: Greater Staffing Flexibility Needed to Improve Management (GAO/RCED-93-100)

Management of HHS: Using the Office of the Secretary to Enhance Departmental Effectiveness (GAO/HRD-90-54)

Management of VA: Improved Human Resource Planning Needed to Achieve Strategic Goals (GAO/HRD-93-10)

Managing Human Resources: Greater OPM Leadership Needed to Address Critical Challenges (GAO/GGD-89-19)

Managing IRS: Actions Needed to Assure Quality Service in the Future (GAO/GGD-89-1)

National Labor Relations Board: Action Needed to Improve Case-Processing Time at Headquarters (GAO/HRD-91-29)

National Science Foundation: Better Guidance on Employee Book Writing Could Help Avoid Ethics Problems (GAO/GGD-93-8)

Nuclear Security: DOE's Progress on Reducing Its Security Clearance Work Load (GAO/RCED-93-183)

Personnel Practices: Propriety of Career Appointments Granted Former Political Appointees (GAO/GGD-92-51)

Personnel Practices: Retroactive Appointments and Pay Adjustments in the Executive Office of the President (GAO/GGD-93-148)

Personnel Practices: Schedule C and Other Details to the Executive Office of the President (GAO/GGD-93-14)

Personnel Security: Efforts by DOD and DOE to Eliminate Duplicative Background Investigations (GAO/RCED-93-23)

Railroad Safety: FRA's Staffing Model Cannot Estimate Inspectors Needed for Safety Mission (GAO/RCED-91-32)

Senior Executive Service: Reasons the Candidate Development Program Has Not Produced More SES Appointees (GAO/GGD-88-47)

Social Security Administration: Stable Leadership and Better Management Needed To Improve Effectiveness (GAO/HRD-87-39)

State Department: Management Weaknesses at the U.S. Embassies in Panama, Barbados, and Grenada (GAO/NSIAD-93-190)

State Department: Management Weaknesses at the U.S. Embassy in Mexico City, Mexico (GAO/NSIAD-93-88)

State Department: Need to Ensure Recovery of Overseas Medical Expenses (GAO/NSIAD-92-277)

Tax Administration: Better Training Needed for IRS' New Telephone Assistors (GAO/GGD-91-83)

Tax Administration: Improved Staffing of IRS' Collection Function Would Increase Productivity (GAO/GGD-93-97)

Tax Administration: IRS Should Expand Financial Disclosure Requirements (GAO/GGD-92-117)

Tax Administration: Need for More Management Attention to IRS' College Recruitment Program (GAO/GGD-90-32)

The Changing Workforce: Comparison of Federal and Nonfederal Work/Family Programs and Approaches (GAO/GGD-92-84)

Transition From School to Work: Linking Education and Worksite Training (GAO/HRD-91-105)

UNESCO: Status of Improvements in Management Personnel, Financial, and Budgeting Practices (GAO/NSIAD-92-172)

U.S. Attorneys: Better Models Can Reduce Resource Disparities Among Offices (GAO/GGD-91-39)

U.S. Department of Agriculture: Need for Improved Workforce Planning (GAO/RCED-90-97)

U.S. Department of Agriculture: Strengthening Management Systems to Support Secretarial Goals (GAO/RCED-91-49)

VA Health Care: Inadequate Enforcement of Federal Ethics Requirements at VA Medical Centers (GAO/HRD-93-39)

VA Health Care: Problems in Implementing Locality Pay for Nurses Not Fully Addressed (GAO/HRD-93-54)

Veterans Affairs IRM: Stronger Role Needed for Chief Information Resources Officer (GAO/IMTEC-91-51BR)

Whistleblower Protection: Agencies' Implementation of the Whistleblower Statutes Has Been Mixed (GAO/GGD-93-66)

Whistleblower Protection: Determining Whether Reprisal Occurred Remains Difficult (GAO/GGD-93-3)

Workplace Accommodation: EPA's Alternative Workspace Process
Requires Greater Managerial Oversight (GAO/GGD-92-53)

Federal Management Issue Area (Budget Function 800)

GAO Contact: William M. Hunt, 202/512-8676

Impact of GAO's Work

A public and political consensus recently has emerged that fundamental changes are needed in the way the federal government manages. Both the September 1993 report of the Vice President's National Performance Review and the Government Performance and Results Act of 1993 drew heavily on our work in analyzing federal management and the need for change.

General Management Reviews

We have a long record of work aimed at improving the management of the federal government. For example, since 1982, we have been doing broad reviews of the management processes and systems of major federal agencies. Our goals have been to improve agencies' management and facilitate congressional oversight and action on management issues. These reviews draw upon and complement our more customary evaluations of individual programs within agencies.

We have completed 48 general management reviews, covering 23 agencies, during the last 10 years. These reviews have shown that agencies need to develop strategic plans and clearly articulated goals and program objectives. Agencies also need better financial and information systems to support managers' decisionmaking. The general management reviews have further demonstrated that agencies need to make an aggressive commitment to improving accountability and internal controls.

Managing for Results

In the past year, we continued to focus on the need for agencies to work with congressional and other stakeholders to define their missions and desired program outcomes, develop measures of program performance, and align their management and administrative support functions to support program results. We assisted the Senate Committee on Governmental Affairs in drafting and marking up the performance measurement legislation that became the Government Performance and Results Act. Since the legislation has passed, we have met with agency officials in a number of forums to explain the requirements of the act, program performance measurement, and the implications for program management and audit and evaluation efforts.

Statistics and Information Policy

We continued to closely monitor the progress of Census Bureau plans for the 2000 census and provided testimony to the Congress so that it might

better understand and influence the critical early decisions that determine the cost and the accuracy of the next census. We warned in March 1993 testimony that a lack of Bureau progress in redesigning the 2000 census jeopardized the prospects of reform.

We issued several reports and testimonies on economic statistical issues. We testified on the limitations of U.S. statistics on trade with Mexico. We issued a report on the status of the 1992 Agriculture and Economic Censuses and future challenges facing the 1997 Agriculture Census. We also issued a report that included no evidence that estimates of the Gross Domestic Product for the first quarter of 1991 had been manipulated for political purposes. This latter report also discussed statistical questions and issues in measuring employment, personal income and the Gross Domestic Product. We will continue to develop a body of work on economic statistical issues and the organization and the leadership of the federal statistical system as a whole.

Key Open Recommendations

Our management work consistently has found that the long-standing management problems confronting the federal government will require long-term and concerted attention by the senior leadership in the agencies. The following key open recommendations are from our most recently completed general management reviews. These recommendations deserve priority consideration and are described both in the section below and in the appropriate substantive issue area section.

Department of Education

The Department of Education, charged with managing the federal investment in education and leading the long-term effort to improve education, lacks a clear management vision of how to best marshal its resources to effectively achieve its mission. The Department has no systematic processes for planning, organizing, or monitoring for results and quality improvement. The Department's major management systems for information, financial, and human resources management also need attention.

In May 1993, we recommended a series of actions that the Department should take to address management weaknesses. Specifically, we recommended that the Secretary (1) articulate a strategic management vision demonstrating how its management infrastructure would be developed to support its missions and secretarial policy priorities; (2) adopt a strategic management process for setting clear goals and priorities, measuring progress toward those goals, and ensuring

accountability for attaining them; (3) enhance management leadership throughout the Department and strengthen agency culture; and (4) create for information, financial, and human resources management, strategic visions, and strategic plans that are integrated with the Department's overall strategic management process.

In response to our recommendations, the Department has begun to implement a strategic planning process. Staff have also been meeting weekly to establish a framework for implementing such initiatives as the national goals legislation. The Department is refining its financial management strategic plan and redesigning its core financial management systems and has begun implementing its strategic and tactical plans for information technology resources. The Department has established a committee to address problems in data collection and dissemination and is working with the National Academy of Public Administration to determine what information is useful in accomplishing programs goals and objectives. The Department has formed task forces to address recruitment issues and to study the use of training funds and to make recommendations to ensure adequate support for training across the Department. (GAO/HRD-93-47)

Customs Service

Our general management review of the Customs Service found that Customs could not adequately ensure that it was meeting its responsibilities to combat unfair foreign trade practices or protect the public from unsafe goods because of interrelated problems in its management culture, including weak strategic planning and outdated organizational structures. In September 1992, we recommended that Customs institute a strategic management process to set priorities for its trade enforcement strategy, establish measurable performance objectives, and monitor progress toward achieving them. We also recommended that Customs evaluate the adequacy of its current headquarters organizational structure and its relationship to the new trade enforcement strategy that it would develop. In addition, we recommended that the Congress remove existing legislative provisions prohibiting Customs from planning changes to its field structure.

Customs has a number of actions in process that are responsive to our recommendations. It has developed a draft 5-year strategic plan, and it plans to develop measures to assess performance against goals. It has formed a task force to establish a statistically valid approach to assessing compliance with the trade laws. The preliminary results of the task force's work confirm our findings that Customs has a greater noncompliance

problem than it realized. Customs sought and obtained congressional repeal of the legislative provisions prohibiting it from planning changes to its field structure. It now has formed a task force to develop a proposal for a new organizational structure. (GAO/GGD-92-123)

Department of Agriculture

In a series of reports on the management of the U.S. Department of Agriculture (USDA), we noted structural problems that, if addressed, could lead to greater efficiency, effectiveness, and cost savings. A key issue is the independence of the major component agencies of USDA, each established in response to a separate legislative mandate. Because these agencies have historically established their own information, financial, and human resources management systems to comply with legislative mandates, efficiencies have not been achieved departmentwide. With these systems, the Department is data rich but information poor, which makes it difficult for the Secretary to make informed decisions. Furthermore, weaknesses in financial management systems and internal and accounting controls substantially increase the risk of mismanagement, fraud, waste, and abuse in Department programs.

We made a number of recommendations specific to departmental structures and strategies that would result in needed improvement. We also recommended that farm agencies' field structures be given a major overhaul; management of cross-cutting agricultural issues be improved; management systems—financial, informational, and human resource—be strengthened; and USDA be revitalized to meet new challenges and increased responsibilities in nutrition, international trade, and resource conservation issues.

Recent progress toward streamlining the USDA field structure is very encouraging, and cost savings should be significant. In September 1993, Agriculture Secretary Mike Espy announced a plan for closing some farm agency offices and consolidating farm agencies into a single farm agency. He also announced a plan to streamline headquarters. (GAO/IMTEC-93-20, GAO/RCED-91-49, GAO/RCED-91-41, and GAO/RCED-91-9)

Agency for International Development

As part of our management review at the Agency for International Development (AID), we reported in March 1992 that a strategic management plan could help AID focus on an agencywide direction and address its key issues. New programs and approaches introduced by each Administrator, added to ongoing activities and congressional directives, have forced AID to address so many objectives that the agency has no clear priorities or meaningful direction. With the dissolution of the Warsaw Pact

and the demise of the Soviet Union, as well as other dramatic global changes, the rationale for foreign aid has shifted. Without a clear vision of what AID should be doing and why, AID's efforts to reorganize, focus its programs, plan for future work force needs, measure program performance, and implement major changes in financial and management information systems may be futile.

We developed the elements of a strategic planning and management process framework for federal agencies and recommended in our report that AID establish such a process. It should enable AID to develop an agencywide direction, select effective management strategies to achieve this direction and address critical issues, assign accountability and monitor feedback, and ensure that its direction continues beyond one Administrator's tenure.

AID responded favorably to our conclusions and recommendations on strategic planning and management and proposed a two-phased approach. Although AID has begun some steps in the strategic management process, it has not yet issued a detailed action plan for implementation nor has it released the results of its initial efforts.

In our final general management review report, we developed some of these issues further and reported that (1) the diffusion of the foreign aid program had constrained AID management, (2) key groups lacked consensus on AID's goals and priorities, (3) lack of central controls had resulted in a fragmented and ineffective organization, and (4) AID had not adequately managed the changes in its overseas work force.

We made numerous recommendations to the AID Administrator designed to give focus to the foreign aid program, bring AID's management system into balance within the agency's decentralized structure, and improve work force planning and management processes. The new AID Administrator responded favorably to our conclusions and is taking steps to implement them. For example, a proposed reorganization will address the need for clear responsibility and authority. (GAO/NSIAD-92-100 and GAO/NSIAD-93-106)

**Related Products With
Open Recommendations:
Federal Management**

Product Title

AID Management: Strategic Management Can Help AID Face Current and Future Challenges (GAO/NSIAD-92-100)

Asset Forfeiture: Improved Guidance Needed for Use of Shared Assets (GAO/GGD-92-115)

Asset Forfeiture: Noncash Property Should Be Consolidated Under the Marshals Service (GAO/GGD-91-97)

Customs Service and INS: Dual Management Structure for Border Inspections Should Be Ended (GAO/GGD-93-111)

Customs Service: Trade Enforcement Activities Impaired by Management Problems (GAO/GGD-92-123)

Decennial Census: 1990 Results Show Need for Fundamental Reform (GAO/GGD-92-94)

Department of Education: Long-Standing Management Problems Hamper Reforms (GAO/HRD-93-47)

Department of Energy: Better Information Resources Management Needed to Accomplish Missions (GAO/IMTEC-92-53)

Department of Energy: Management Problems Require a Long-Term Commitment to Change (GAO/RCED-93-72)

DOE Management: Better Planning Needed to Correct Records Management Problems (GAO/RCED-92-88)

Education Issues (GAO/OCG-93-18TR)

Energy Management: Contract Audit Problems Create the Potential for Fraud, Waste, and Abuse (GAO/RCED-92-41)

Energy Policy: Changes Needed to Make National Energy Planning More Useful (GAO/RCED-93-29)

Environmental Protection Agency: Protecting Human Health and the Environment Through Improved Management (GAO/RCED-88-101)

Federal Employment: Poor Service Found at Federal Job Information Centers (GAO/GGD-92-116)

Federal Personnel Management: OPM Reliance on Agency Oversight of Personnel System Not Fully Justified (GAO/GGD-93-24)

Federal Workforce: Inappropriate Use of Experts and Consultants at Selected Civilian Agencies (GAO/GGD-91-99)

Financial Management: Customs Needs to Establish Adequate Accountability and Control Over Its Resources (GAO/AFMD-92-30)

Financial Management: The U.S. Mint's Accounting and Control Problems Need Management Attention (GAO/AFMD-89-88)

General Services Administration: Sustained Attention Required to Improve Performance (GAO/GGD-90-14)

Government Civilian Aircraft: Central Management Reforms Are Encouraging but Require Extensive Oversight (GAO/GGD-89-86)

Immigration Management: Strong Leadership and Management Reforms Needed to Address Serious Problems (GAO/GGD-91-28)

Information Management: Immigration and Naturalization Service Lacks Ready Access to Essential Data (GAO/IMTEC-90-75)

Management of HHS: Using the Office of the Secretary to Enhance Departmental Effectiveness (GAO/HRD-90-54)

Management of VA: Improved Human Resource Planning Needed to Achieve Strategic Goals (GAO/HRD-93-10)

Management Review: Follow-Up on the Management Review of the Defense Logistics Agency (GAO/NSLAD-88-107)

Managing Human Resources: Greater OPM Leadership Needed to Address Critical Challenges (GAO/GGD-89-19)

Managing IRS: Actions Needed to Assure Quality Service in the Future
(GAO/GGD-89-1)

Managing IRS: Important Strides Forward Since 1988 but More Needs to Be Done (GAO/GGD-91-74)

Medicaid: Ensuring that Noncustodial Parents Provide Health Insurance Can Save Costs (GAO/HRD-92-80)

National Archives: A Review of Selected Management Issues
(GAO/AFMD-89-39)

Personnel Practices: Propriety of Career Appointments Granted Former Political Appointees (GAO/GGD-92-51)

Social Security Administration: Stable Leadership and Better Management Needed To Improve Effectiveness (GAO/HRD-87-39)

Tax Administration: Congress Needs More Information on Compliance Initiative Results (GAO/GGD-92-118)

Tax Administration: Opportunities to Further Improve IRS' Business Review Process (GAO/GGD-92-125)

Thrift Failures: Actions Needed to Stabilize RTC's Professional Liability Program (GAO/GGD-93-105)

U.S. Department of Agriculture: Farm Agencies' Field Structure Needs Major Overhaul (GAO/RCED-91-9)

U.S. Department of Agriculture: Improving Management of Cross-Cutting Agricultural Issues (GAO/RCED-91-41)

U.S. Department of Agriculture: Interim Report on Ways to Enhance Management (GAO/RCED-90-19)

U.S. Department of Agriculture: Need for Improved Workforce Planning (GAO/RCED-90-97)

U.S. Department of Agriculture: Strengthening Management Systems to Support Secretarial Goals (GAO/RCED-91-49)

Chapter 4
Improving Justice and General Government
Programs

VA Health Care: Inadequate Controls Over Scarce Medical Specialist
Contracts (GAO/HRD-92-114)

GAO Contact: James L. Bothwell, 202/512-8678

Financial Institutions and Markets Issue Area (Budget Function 800)

Impact of GAO's Work

Our work provided information, analyses, and recommendations to the Congress and regulator agencies on financial services industry reform, regulation, and oversight. We analyzed (1) emerging issues, financial health of various segments of the financial services sector, and gaps in regulatory coverage; (2) existing regulatory practices to see if they worked as intended; and (3) the continued appropriateness of federal policies governing financial institutions and markets.

We continued to advise congressional leadership—through reports, testimonies, and briefings—on the implementation of key provisions of banking reform legislation that were intended to strengthen the banking system and reduce taxpayers' exposure to losses. Our work has also helped enhance understanding and congressional oversight of the regulatory burden issue and the regulators' efforts to address it. Through reports and recommendations on financial markets issues, we have improved the disclosure of information on government and private securities transactions and further upgraded the protection afforded investors. This work and other work designed to improve capital requirements and strengthen regulation of financial services industries have resulted in a stronger financial system and a strengthened regulatory structure to protect the American public.

Key Open Recommendations

Financial Institution Reforms

In our report on credit unions, we recommended some 50 regulatory and legislative actions to ensure the future soundness of the industry, including changes to (1) maintain safe and sound insurance operations, (2) upgrade the regulation and supervision of credit unions, and (3) clarify the "common bond" characteristic distinguishing credit unions from banks and thrifts. The National Credit Union Administration has issued regulations to address many of the recommendations; there has not yet been action on our recommendations to the Congress. (GAO/GGD-91-85)

We reported that the Federal Deposit Insurance Corporation's (FDIC) Liquidation Asset Management Information System was not adequately supporting the Division of Liquidation's needs. We recommended that, to correct the problem, FDIC develop a system that would meet the Division's requirements for managing loan and for strengthening real estate assets. FDIC is developing an improved system. (GAO/IMTEC-93-08)

Securities

In a report on the U.S. government securities market, we recommended that the Congress (1) extend the Department of the Treasury's rulemaking authority, subject to a sunset provision; (2) authorize Treasury to adopt rules as needed over the sales practices of government securities brokers and dealers; and (3) require screen brokers to make transaction information available to market participants on a real-time basis. We also recommended that the Congress extend Securities Investor Protection Corporation (SIPC) insurance coverage to customer accounts in specialized government securities dealers. Legislation is pending before the Congress that would implement these changes. (GAO/GGD-90-114)

Our report on investment advisers showed that regulatory oversight of advisers was very weak. We recommended that the Congress clarify its regulatory intent for the investment advisers program by either strengthening it to meet some minimal standard or repealing requirements for federal regulation of advisers. Legislation to strengthen the program has been introduced during past sessions of the Congress. (GAO/GGD-90-83)

In a report on securities trading, we recommended that the Securities and Exchange Commission (SEC) closely monitor the development of the exchanges market linkage system. SEC is implementing such a system. (GAO/GGD-90-52)

In our report on SEC's EDGAR System, we recommended that the priority of users' needs and system requirements be determined and that SEC set realistic project schedules. SEC is doing so. (GAO/IMTEC-92-85)

In our report on security investor protection, we found that SIPC needed to periodically review the adequacy of its funding arrangement, improve its access to information, and speed its liquidations. We recommended SIPC and SEC improve each of the above. (GAO/GGD-92-109)

In our report on the need to regulate additional financial activities of securities firms, we expressed concern about the unregulated financial activities of affiliated and holding companies of U.S. securities firms,

especially given the collapse of Drexel Burnham Lambert. We recommended that SEC determine whether the overall risks posed by the unregulated financial activities of broker-dealer holding companies and affiliates warranted additional regulation or legislative changes. (GAO/GGD-92-70)

Our report on international capital standards stated that the capital of securities firms was reduced when they traded in foreign securities that SEC had not recognized as being readily marketable. We recommended that SEC consider revising its capital rule to recognize more foreign markets and more foreign securities as readily marketable under SEC's 1975 criteria and develop a mechanism to recognize additional foreign securities and markets as they develop. (GAO/GGD-92-41)

Our report on penny stocks said that SEC needed to require the National Association of Securities Dealers (NASD) to develop a plan for examining the branch offices of penny stock broker-dealers. The plan should require all NASD districts to include a sampling plan to identify high-risk branches, establish the frequency of examinations, and determine the number of employees required to examine branches. NASD is preparing such a plan for SEC's review. (GAO/GGD-93-59)

Our testimony on market fragmentation recommended that SEC periodically monitor the effects of market fragmentation. SEC is considering this recommendation. (GAO/T-GGD-93-35)

Related Products With Open Recommendations: Financial Institutions and Markets

Product Title

Asset Forfeiture: Improved Guidance Needed for Use of Shared Assets
(GAO/GGD-92-115)

**Asset Management System: Liquidation of Failed Bank Assets Not
Adequately Supported by FDIC System** (GAO/IMTEC-93-8)

**Bank and Thrift Failures: FDIC and RTC Could Do More to Pursue
Professional Liability Claims** (GAO/T-GGD-92-42)

Bank and Thrift Regulation: Improvements Needed In Examination Quality and Regulatory Structure (GAO/AFMD-93-15)

Bank Examination Quality: FDIC Examinations Do Not Fully Assess Bank Safety and Soundness (GAO/AFMD-93-12)

Bank Examination Quality: FRB Examinations and Inspections Do Not Fully Assess Bank Safety and Soundness (GAO/AFMD-93-13)

Bank Examination Quality: OCC Examinations Do Not Fully Assess Bank Safety and Soundness (GAO/AFMD-93-14)

Bank Regulation: Regulatory Impediments to Small Business Lending Should Be Removed (GAO/GGD-93-121)

Credit Unions: Reforms for Ensuring Future Soundness (GAO/GGD-91-85)

Financial Audit: Savings Association Insurance Fund's 1991 and 1990 Financial Statements (GAO/AFMD-92-72)

Funding Foreign Bank Examinations (GAO/GGD-93-35R)

Investment Advisers: Current Level of Oversight Puts Investors at Risk (GAO/GGD-90-83)

Penny Stocks: Regulatory Actions to Reduce Potential for Fraud and Abuse (GAO/GGD-93-59)

Resolution Trust Corporation: Additional Monitoring of Basic Ordering Agreements Needed (GAO/GGD-93-107)

Resolution Trust Corporation: Affordable Multifamily Housing Program Has Improved but More Can Be Done (GAO/GGD-92-137)

Resolution Trust Corporation: A More Flexible Contracting-Out Policy Is Needed (GAO/GGD-91-136)

Resolution Trust Corporation: Assessing Portfolio Sales Using Participating Cash Flow Mortgages (GAO/GGD-92-33BR)

Resolution Trust Corporation: Asset Pooling and Marketing Practices Add Millions to Contract Costs (GAO/GGD-93-2)

Resolution Trust Corporation: Better Assurance Needed That Contractors Meet Fitness and Integrity Standards (GAO/GGD-93-127)

Resolution Trust Corporation: Controls Over Asset Valuations Do Not Ensure Reasonable Estimates (GAO/GGD-93-80)

Resolution Trust Corporation: Effectiveness of Auction Sales Should Be Demonstrated (GAO/GGD-92-7)

Resolution Trust Corporation: Loan Portfolio Pricing and Sales Process Could Be Improved (GAO/GGD-93-116)

Resolution Trust Corporation: 1992 Washington/Baltimore Auctions Planned and Managed Poorly (GAO/GGD-93-115)

Resolution Trust Corporation: Performance Assessment for 1991 (GAO/T-GGD-92-14)

Resolution Trust Corporation: Progress Under Way in Minority and Women Outreach Program for Outside Counsel (GAO/GGD-91-121)

Resolution Trust Corporation: Subcontractor Cash Management Practices Violate Policy and Reduce Income (GAO/GGD-93-7)

Resolution Trust Corporation: Survey Results on RTC's Communication and Real Estate Marketing (GAO/GGD-92-134BR)

Resolution Trust Corporation: Timelier Action Needed to Locate Missing Asset Files (GAO/GGD-93-76)

Securities and Exchange Commission: Delays in Processing Time-Sensitive Stock Filings (GAO/GGD-93-130)

Securities and Exchange Commission: Effective Development of the EDGAR System Requires Top Management Attention (GAO/IMTEC-92-85)

Securities Firms: Assessing the Need to Regulate Additional Financial Activities (GAO/GGD-92-70)

Securities Investor Protection: The Regulatory Framework Has Minimized SIPC's Losses (GAO/GGD-92-109)

Securities Markets: Challenges to Harmonizing International Capital Standards Remain (GAO/GGD-92-41)

Securities Markets: SEC Actions Needed to Address Market Fragmentation Issues (GAO/T-GGD-93-35)

Securities Trading: SEC Action Needed to Address National Market System Issues (GAO/GGD-90-52)

Thrift Examination Quality: OTS Examinations Do Not Fully Assess Thrift Safety and Soundness (GAO/AFMD-93-11)

Thrift Failures: Actions Needed to Stabilize RTC's Professional Liability Program (GAO/GGD-93-105)

Unemployment Insurance: Trust Fund Reserves Inadequate (GAO/HRD-88-55)

U.S. Government Securities: More Transaction Information and Investor Protection Measures Are Needed (GAO/GGD-90-114)

Government Business Operations Issue Area (Budget Function 800)

GAO Contact: J. William Gadsby, 202/512-8387

Impact of GAO's Work

Our work in this area focuses on three of the government's largest business entities: the General Services Administration (GSA), the Resolution Trust Corporation (RTC), and the U.S. Postal Service. This area also encompasses responsibilities for many other federal entities, such as the Smithsonian Institution, the National Archives, parts of the Department of the Treasury, and the D.C. Government.

Ultimately, the policies, operations, and employees of the three large entities have an impact not only on meeting their own mission goals but on the capability of other federal agencies to meet theirs.

Our work has directly influenced GSA and the congressional leadership to rethink and change GSA's role as a central management agency and a monopoly provider of services to federal agencies. Numerous reports and testimonies, which culminated in our Transition Series report, highlighted the need for GSA to manage in a more businesslike manner its public buildings and supply distribution operations and called for improved congressional oversight. Two recently issued reports drove this point home in that they showed how millions of dollars could be saved if GSA had more orders shipped directly to the customer agencies from suppliers rather than from its depots and eliminated repeat poor-performing vendors from the supply system.

Because of high congressional interest, we have given special attention to federal asset management and disposition activities of RTC in liquidating assets from failed savings and loan institutions. We have focused our efforts on RTC's sales strategies, contracting activities, and the affordable housing and minority- and women-owned business programs. Through reports and frequent testimony, we have fostered considerable positive change in the organization and management of these activities. We will continue to try to improve the way RTC carries out its asset management responsibilities—specifically, we believe that it should consolidate individual agency activities. During the coming year, we will also begin to focus on the asset management and disposition activities of the Federal Deposit Insurance Corporation.

Key efforts at the U.S. Postal Service have focused on the need for an appropriate response to rapidly changing electronic communication technology and an increasingly competitive market for postal services. In reports and testimony in 1992, we directed congressional and Postal Service attention to the limited progress in controlling labor costs through the automation of mail processes and the factors such as outmoded pricing policies hindering Postal Service efforts to compete effectively. We will continue to focus on the competitive challenges the Postal Service faces and the success of its efforts to improve the quality of its services, motivate employees, improve labor and management relations, and generate and protect revenue.

Key Open Recommendations

General Services Administration

GSA recognized the potential for increasing direct delivery and is developing a plan to test the recommendation in the marketplace. GSA also is establishing an interagency committee of supply management personnel to evaluate current depot operations and participate in developing the most cost-effective supply system. Although these are worthwhile first steps, no substantive action has been completed and we thus cannot assess the adequacy of these efforts. (GAO/GGD-93-32)

GSA acknowledged that it had had difficulty with vendors who had failed to perform as quality contractors. GSA concurred in the recommendations to remove poor-performing vendors from the supply system and provided information on various initiatives it has planned or under way to implement them. But, it is too early to determine how these new initiatives will have on reducing GSA's existing vulnerability to using repeat poor-performing vendors. (GAO/GGD-93-34)

Resolution Trust Corporation

Although RTC requires its asset management contractors to open interest-bearing operating accounts to pay asset management expenses, there is no such requirement for property management subcontractors. Our analysis of the bank accounts managed by 14 subcontractors showed that only 1 had opened an interest-bearing account. If the other 13 had opened interest-bearing accounts, RTC would have earned approximately \$111,000 in interest. If the more than 1,600 property management subcontractors have not established interest-bearing accounts, the amount of additional interest income foregone by RTC could be significant.

In October 1992, we recommended that RTC revise its policy and asset management contracts to require that property management subcontractors establish interest-bearing operating accounts for RTC assets with the interest accruing to RTC. (GAO/GGD-93-7)

U.S. Postal Service

The Postal Reorganization Act of 1970 established criteria for setting postal rates at a time when the Postal Service had less competition than it faces now. Since passage of the 1970 act, the Postal Service's competitive position has eroded, especially in the parcel post and overnight mail markets. We recommended that, because of the Postal Service's increasingly competitive environment and the need for greater pricing flexibility, the Congress reexamine the criteria used in setting postal rates to determine whether the criteria were still valid in light of changing marketplace realities. We also said that, if the Congress intended that the Postal Service compete in the parcel post and express mail markets, it should consider a policy of granting discounts to customers on the basis of their mail volumes. No action has been taken on our recommendations. (GAO/GGD-92-49)

Treasury Issues

In March 1993, we recommended that the Congress authorize the introduction of a new, well-designed \$1 coin and eliminate the dollar note, a move that would save the government nearly \$400 million per year over 30 years. We recommended that the Congress require the Secretary of the Treasury to designate an advocate of the new coin, who would promote it and respond to public inquiries and complaints. The Congress has not yet taken action on our recommendations. (GAO/GGD-93-56)

Related Products With Open Recommendations: Government Business Operations

Product Title

Data Collection: Opportunities to Improve USDA's Farm Costs and Returns Survey (GAO/RCED-92-175)

Defense ADP: Corporate Information Management Must Overcome Major Problems (GAO/IMTEC-92-77)

Disinfectants: EPA Lacks Assurance They Work (GAO/RCED-90-139)

Environmental Enforcement: EPA Needs a Better Strategy to Manage Its Cross-Media Information (GAO/IMTEC-92-14)

Environmental Protection Agency: Plans in Limbo for Consolidated Headquarters Space (GAO/GGD-93-84)

FAA Information Resources: Agency Needs to Correct Widespread Deficiencies (GAO/IMTEC-91-43)

Federal Buildings: Actions Needed to Prevent Further Deterioration and Obsolescence (GAO/GGD-91-57)

Federal Buildings: Many Are Threatened by Earthquakes, but Limited Action Has Been Taken (GAO/GGD-92-62)

Federal Formula Programs: Outdated Population Data Used to Allocate Most Funds (GAO/HRD-90-145)

Federal Judiciary Space: Long-Range Planning Process Needs Revision (GAO/GGD-93-132)

Federal Lands: Improvements Needed in Managing Short-Term Concessioners (GAO/RCED-93-177)

Federal Lobbying: Lobbying the Executive Branch (GAO/T-GGD-91-70)

Federal Office Space: Increased Ownership Would Result in Significant Savings (GAO/GGD-90-11)

Federal Research: System for Reimbursing Universities' Indirect Costs Should Be Reevaluated (GAO/RCED-92-203)

Foreign Direct Investment: Assessment of Commerce's Annual Report and Data Improvement Efforts (GAO/NSIAD-92-107)

Foster Care: Children's Experiences Linked to Various Factors; Better Data Needed (GAO/HRD-91-64)

Freedom of Information: FDA's Program and Regulations Need Improvement (GAO/HRD-92-2)

FTS 2000 Overhead: GSA Should Reassess Contract Requirements and Improve Efficiency (GAO/IMTEC-92-59)

General Services Administration: Actions Needed to Improve Protection Against Fraud, Waste, and Mismanagement (GAO/GGD-92-98)

General Services Administration: Actions Needed to Stop Buying Supplies From Poor-Performing Vendors (GAO/GGD-93-34)

General Services Administration: Distribution Center Modernization Was Mismanaged (GAO/GGD-92-71)

General Services Administration: Efforts to Communicate About Asbestos Abatement Not Always Effective (GAO/GGD-92-28)

General Services Administration: Increased Direct Delivery of Supplies Could Save Millions (GAO/GGD-93-32)

General Services Administration: Sustained Attention Required to Improve Performance (GAO/GGD-90-14)

Government Civilian Aircraft: Central Management Reforms Are Encouraging but Require Extensive Oversight (GAO/GGD-89-86)

Gross Domestic Product: No Evidence of Manipulation in First Quarter 1991 Estimates (GAO/GGD-93-58)

GSA's Computer Security Guidance (GAO/AIMD-93-7R)

Illegal Aliens: Despite Data Limitations, Current Methods Provide Better Population Estimates (GAO/PEMD-93-25)

Immigration Management: Strong Leadership and Management Reforms Needed to Address Serious Problems (GAO/GGD-91-28)

Managing IRS: Important Strides Forward Since 1988 but More Needs to Be Done (GAO/GGD-91-74)

Multiple Award Schedule Contracting: Changes Needed in Negotiation Objectives and Data Requirements (GAO/GGD-93-123)

National Archives: A Review of Selected Management Issues
(GAO/AFMD-89-39)

Occupational Safety & Health: Assuring Accuracy in Employer Injury and Illness Records (GAO/HRD-89-23)

One-Dollar Coin: Reintroduction Could Save Millions if Properly Managed
(GAO/GGD-93-56)

Paperwork Reduction: Agency Responses to Recent Court Decisions
(GAO/PEMD-93-5)

Patent and Trademark Office: Key Processes for Managing Automated Patent System Development Are Weak (GAO/AIMD-93-15)

Postal Service: Service Impact of South Dakota Mail Facility Not Fully Recognized (GAO/GGD-93-62)

Radon Testing in Federal Buildings Needs Improvement and HUD's Radon Policy Needs Strengthening (GAO/T-RCED-91-48)

Regulatory Flexibility Act: Inherent Weaknesses May Limit Its Usefulness for Small Governments (GAO/HRD 91-16)

Social Security Administration: Stable Leadership and Better Management Needed To Improve Effectiveness (GAO/HRD-87-39)

Social Security: Status and Evaluation of Agency Management Improvement Initiatives (GAO/HRD-89-42)

Tax Administration: Federal Agencies Should Report Service Payments Made to Corporations (GAO/GGD-92-130)

Telecommunications: Concerns About Competition in the Cellular Telephone Service Industry (GAO/RCED-92-220)

Treasury Automation: Automated Auction System May Not Achieve Benefits or Operate Properly (GAO/IMTEC-93-28)

U.S. Government Securities: More Transaction Information and Investor Protection Measures Are Needed (GAO/GGD-90-114)

Chapter 4
Improving Justice and General Government
Programs

U.S. Postal Service: Pricing Postal Services in a Competitive Environment
(GAO/GGD-92-49)

Weather Forecasting: Important Issues on Automated Weather Processing
System Need Resolution (GAO/IMTEC-93-12BR)

Welfare Benefits: States Need Social Security's Death Data to Avoid
Payment Error or Fraud (GAO/HRD-91-73)

**Tax Policy and
Administration Issue
Area (Budget
Function 800)**

GAO Contact: Jennie S. Stathis, 202/512-5407

Impact of GAO's Work

Our work in this area has provided information and analyses directed at (1) enhancing efforts to ensure compliance with the country's tax laws, (2) assessing the progress of the Internal Revenue Service (IRS) in modernizing its tax-processing system, (3) increasing collection of IRS' accounts receivable, (4) revising the tax laws to ease taxpayer burden and promote more effective and equitable tax subsidies, and (5) improving the ability of IRS to effectively manage its tax administration activities.

We suggested ways that IRS could reduce individual taxpayers' overstatement of real estate tax deductions and improve voluntary compliance. We also recommended that IRS not abandon a long-used compliance measurement program until a suitable substitute could be developed. We recommended, and IRS agreed, that IRS start requiring corporations to report their accumulated net operating losses from past tax years to offset taxable income in other tax years. Having this information will improve revenue estimates as well as IRS' compliance programs. We recommended that, to reduce the growing IRS accounts receivable, IRS examine collection methods of private companies and local governments and develop a plan to deploy its collection staff to maximize the assessment and the collection of taxes.

In monitoring IRS' Tax Systems Modernization project, we concluded generally that IRS had progressed more slowly than expected in completing steps basic to successful modernization, such as planning for its business reorganization, developing detailed security and telecommunications requirements, and addressing related human resource implications. We also recommended that, because of significant slippage in implementation schedules, IRS reevaluate the utility of certain short-term computer projects. We also reported that the IRS' electronic filing program benefited both IRS and taxpayers and recommended that to broaden its use, IRS redirect its marketing focus. In addition, we recommended that IRS institute additional controls to reduce the program's vulnerability to fraud.

Our study of a federal value-added tax provided the Congress with basic information related to issues and costs that would be involved in its

administration. We also provided analysis and data to the Congress that was used in changing the section 936 tax credit to reduce federal revenue losses while maintaining incentives for investment in Puerto Rico. Additionally, we supplied information used by the Congress in its analysis of taxes paid by foreign-controlled corporations as opposed to those paid by U.S.-controlled corporations.

Key Open Recommendations

Compliance

For about 30 years, the Taxpayer Compliance Measurement Program (TCMP) has been the IRS' primary means of gathering information on taxpayer compliance. In 1991, IRS began making plans to redesign TCMP because of concerns about TCMP's cost, burden to taxpayers, and timeliness. We found that neither cost nor taxpayer burden justified the proposed changes to TCMP and recommended that IRS delay any changes until a satisfactory substitute could be found that met the criteria we had set out in our report. (GAO/GGD-93-52)

The volume of long-term tax-exempt bonds doubled between 1968 and 1990, while the amount of foregone federal tax revenues grew proportionately, exceeding \$20 billion in 1990. We recommended that IRS improve its oversight of compliance with tax-exempt bond requirements by redirecting its enforcement program to test current market compliance, to make better use of information collected from bond issuers, and to reassess staffing levels and locations. We also recommended that IRS develop and implement a plan for more effective use of resources to promote voluntary compliance in the tax-exempt bond industry. (GAO/GGD-93-104)

IRS audits indicate that individuals overstated their real estate tax deductions by an estimated \$1.5 billion in 1988, resulting in nearly \$700 million in federal income tax losses for 1988 and 1989. We recommended that, to improve voluntary compliance, IRS clearly define user fees, special assessments, and rebates in Form 1040 instructions and that it work with local governments to revise their real estate tax bills to distinguish user fees and special assessments as "nondeductible." Further, we suggested that IRS auditors routinely check local records and that IRS negotiate agreements with local governments to share data on taxpayers' real estate payments. (GAO/GGD-93-43)

In October 1992, we reported on what states were doing to combat money laundering. We noted that the Internal Revenue Code required persons engaged in a trade or business who received cash payments of over \$10,000 to file reports with IRS, but these reports are not available to state law enforcement agencies. We recommended that the Congress amend the IRS disclosure laws to allow states access to data on these reports. (GAO/GGD-93-1)

Tax Systems Modernization

IRS' electronic filing program benefits both IRS and taxpayers by reducing handling costs, while allowing faster and more accurate processing of returns and refunds. IRS' marketing of the electronic filing program has focused on attracting more preparers and transmitters, but approximately 90 percent of all individual returns were not filed electronically in 1992. We recommended that, to broaden the use of electronic filing, IRS devise a marketing plan directing appropriate attention to other segments of the population. (GAO/GGD-93-40)

Electronic filing also significantly reduces the time it takes to issue a refund to a taxpayer—on average, from 5 weeks for taxpayers who file paper returns to 2 weeks for those who file electronically. Because this speed leaves IRS with as little as 2 days to investigate and stop a refund, however, the program is particularly vulnerable to fraud. We assessed IRS' controls to prevent electronic filing fraud and recommended additional controls. (GAO/GGD-93-27)

Accounts Receivable Collection

We studied private sector and state collection techniques to determine whether IRS could make changes to improve its collection of delinquent taxes. We recommended that IRS restructure its collection program to support earlier telephone contact with delinquent taxpayers, develop detailed information on delinquent taxpayers for customized collection procedures, test the use of private collection companies, and identify ways to increase cooperation with state governments. (GAO/GGD-93-67)

While IRS' delinquent taxpayer workload has continued to grow, productivity of collection staff has varied at different field locations. Presently, IRS' staff allocation system does not use marginal productivity measurements to adjust the staff levels at the various field locations. We recommended that IRS develop a plan to ensure that collection staff would be allocated to maximize the assessment and collection of taxes and that it reconsider its policy against the transfer of collection staff among field offices. (GAO/GGD-93-97)

Tax Simplification

In a review of taxpayer compliance in claiming the dependent exemption, we concluded that the rules for claiming dependent exemptions were too complex and too burdensome for many taxpayers to comply. We suggested that the Congress simplify the rules by substituting a residency test similar to that used in the Earned Income Tax Credit program. We also recommended that IRS resolve operational problems in its computer matching program, thereby enabling IRS to cost-effectively implement a 100-percent computer matching program to identify erroneous dependent claims. (GAO/GGD-93-60)

In September 1993, we stated that the earned income tax credit had been the source of more taxpayer mistakes than any other individual income tax provision. We observed that IRS had introduced a complex schedule in an attempt to prevent ineligible taxpayers from receiving the credit but gave the credit even when the schedule lacked pertinent information. We recommended that, to eliminate the need for this complex schedule, IRS modify its tax schedule. Further, as we found that IRS credit-processing procedures are inconsistent in the way that they treat taxpayers who claim the credit but fail to file complete information, we recommended that IRS adjust its procedures to ensure that all taxpayers equitable treatment. Finally, we recommended that IRS expand its efforts to inform low-income workers about the tax credit by sending explanatory notices to all nonfiling workers who had earned income. (GAO/GGD-93-145)

Management of IRS

In September 1992 testimony, we noted wasteful practices, flawed processes, and inadequate controls related to property seized and maintained by the IRS' Collection and Criminal Investigation Divisions. We believe that the storage and sale costs could be reduced and revenue increased if sales were consolidated. We recommended that IRS assess the options available for consolidation and contractor management and that its Collection Division provide guidance to its revenue officers on making cost-effective seizures. (GAO/T-GGD-92-65)

At present, the Federal Tax Deposit (FTD) system collects payment and tax data separately, thereby creating problems related to matching the accounting information on tax returns to payment data on FTD coupons. The Department of the Treasury is automating the FTD process. We recommended that these automation efforts be monitored to ensure that the new automated system collected together the appropriate accounting data with the taxpayer payment data. (GAO/AFMD-93-40)

In March 1993, we reported that taxpayer identity data that IRS routinely collected each year to process tax returns could help the Social Security Administration (SSA) identify the correct accounts to which to credit workers' social security taxes. We recommended that IRS and SSA work together to conduct a study evaluating the extent to which the agency could better match workers' earnings to correct social security accounts by using IRS taxpayer data. (GAO/HRD-93-42)

IRS continues to lose millions of dollars of interest payments due to delays in depositing individual income tax payments. We believe that IRS needs to aggressively seek ways to deposit tax payments faster and recommended that IRS collect data to help it develop strategies for identifying and rapidly depositing large tax payments. (GAO/GGD-93-64)

**Related Products With
Open Recommendations:
Tax Policy and
Administration**

Product Title

Collecting Back Taxes: IRS Phone Operations Must Do Better
(GAO/IMTEC-91-39)

Earned Income Tax Credit: Advance Payment Option Is Not Widely Known
or Understood by the Public (GAO/GGD-92-26)

Identifying Options for Organizational and Business Changes at IRS
(GAO/T-GGD-91-54)

International Taxation: Problems Persist in Determining Tax Effects of
Intercompany Prices (GAO/GGD-92-89)

IRS Information Systems: Weaknesses Increase Risk of Fraud and Impair
Reliability of Management Information (GAO/AIMD-93-34)

IRS Procurement: Software Documentation Requirement Did Not Restrict
Competition (GAO/IMTEC-92-30)

Managing IRS: Actions Needed to Assure Quality Service in the Future
(GAO/GGD-89-1)

Managing IRS: Important Strides Forward Since 1988 but More Needs to Be Done (GAO/GGD-91-74)

Targeted Jobs Tax Credit: Employer Actions to Recruit, Hire, and Retain Eligible Workers Vary (GAO/HRD-91-33)

Tax Administration: Approaches for Improving Independent Contractor Compliance (GAO/GGD-92-108)

Tax Administration: Benefits of a Corporate Document Matching Program Exceed the Costs (GAO/GGD-91-118)

Tax Administration: Better Training Needed for IRS' New Telephone Assistors (GAO/GGD-91-83)

Tax Administration: Changes Are Needed to Improve Federal Agency Tax Compliance (GAO/GGD-91-45)

Tax Administration: Computer Matching Could Identify Overstated Business Deductions (GAO/GGD-93-133)

Tax Administration: Congress Needs More Information on Compliance Initiative Results (GAO/GGD-92-118)

Tax Administration: Delayed Tax Deposits Continue to Cause Lost Interest for the Government (GAO/GGD-93-64)

Tax Administration: Effectiveness of IRS' Return Preparer Penalty Program Is Questionable (GAO/GGD-91-12)

Tax Administration: Efforts to Prevent, Identify, and Collect Employment Tax Delinquencies (GAO/GGD-91-94)

Tax Administration: Erroneous Dependent and Filing Status Claims (GAO/GGD-93-60)

Tax Administration: Erroneous Penalties for Failure to File Returns or Pay Taxes Can Be Reduced (GAO/GGD-90-80)

Tax Administration: Expanded Reporting on Seller-Financed Mortgages Can Spur Tax Compliance (GAO/GGD-91-38)

Tax Administration: Federal Agencies Should Report Service Payments Made to Corporations (GAO/GGD-92-130)

Tax Administration: Federal Contractor Tax Delinquencies and Status of the 1992 Tax Return Filing Season (GAO/T-GGD-92-23)

Tax Administration: Improved Staffing of IRS' Collection Function Would Increase Productivity (GAO/GGD-93-97)

Tax Administration: Information Returns Can Improve Reporting of Forgiven Debts (GAO/GGD-93-42)

Tax Administration: IRS Can Improve Controls Over Electronic Filing Fraud (GAO/GGD-93-27)

Tax Administration: IRS Can Improve Its Process for Recognizing Tax-Exempt Organizations (GAO/GGD-90-55)

Tax Administration: IRS Can Improve Its Program to Find Taxpayers Who Underreport Their Income (GAO/GGD-91-49)

Tax Administration: IRS Experience Using Undercover Operations' Proceeds to Offset Operational Expenses (GAO/GGD-91-106)

Tax Administration: IRS' Implementation of the 1988 Taxpayer Bill of Rights (GAO/GGD-92-23)

Tax Administration: IRS' Management of Seized Assets (GAO/T-GGD-92-65)

Tax Administration: IRS Needs More Reliable Information on Enforcement Revenues (GAO/GGD 90 85)

Tax Administration: IRS' 1992 Filing Season Was Successful But Not Without Problems (GAO/GGD-92-132)

Tax Administration: IRS' Plans to Measure Tax Compliance Can Be Improved (GAO/GGD-93-52)

Tax Administration: IRS Preparer Penalty Data Inaccurate and Misleading (GAO/GGD-90-92)

Tax Administration: IRS Should Expand Financial Disclosure Requirements
(GAO/GGD-92-117)

Tax Administration: IRS' System Used in Prioritizing Taxpayer Delinquencies Can Be Improved (GAO/GGD-92-6)

Tax Administration: IRS Undercover Operations Management Oversight Should Be Strengthened (GAO/GGD-92-79)

Tax Administration: Need for More Management Attention to IRS' College Recruitment Program (GAO/GGD-90-32)

Tax Administration: Negligence and Substantial Understatement Penalties Poorly Administered (GAO/GGD-91-91)

Tax Administration: New Delinquent Tax Collection Methods for IRS
(GAO/GGD-93-67)

Tax Administration: Opportunities to Further Improve IRS' Business Review Process (GAO/GGD-92-125)

Tax Administration: Opportunities to Increase Revenue Before Expiration of the Statutory Collection Period (GAO/GGD-91-89)

Tax Administration: Opportunities to Increase the Use of Electronic Filing
(GAO/GGD-93-40)

Tax Administration: Overstated Real Estate Tax Deductions Need To Be Reduced (GAO/GGD-93-43)

Tax Administration: Standards Adhered to in Issuing Revenue Ruling 90-27
(GAO/GGD-92-15)

Tax Administration: Status of Efforts to Curb Motor Fuel Tax Evasion
(GAO/GGD-92-67)

Tax Policy: Allocation of Taxes Within the Life Insurance Industry
(GAO/GGD-90-19)

Tax Policy and Administration: Improvements for More Effective Tax-Exempt Bond Oversight (GAO/GGD-93-104)

Tax Policy: Earned Income Tax Credit: Design and Administration Could Be Improved (GAO/GGD-93-145)

Tax Policy: Summary of GAO Work Related to Expiring Tax Provisions (GAO/T-GGD-92-11)

Tax Policy: Tax Treatment of Life Insurance and Annuity Accrued Interest (GAO/GGD-90-31)

The New Earned Income Credit Form Is Complex and May Not Be Needed (GAO/T-GGD-91-68)

Financial and Information Management and Evaluation Programs

Budget Issue Area (Budget Function 990)

GAO Contact: Paul L. Posner, 202/512-9573

Impact of GAO's Work

The size and the persistence of the budget deficit is central to the nation's economic future. The budget has become a focal point for many of the current policy debates. As a result, the budget and the budget process are expected to meet many demands. They are expected to provide a mechanism to reduce the deficit, to promote greater long-term economic growth, to provide policymakers with information and choices needed to make short-term and long-term spending decisions, and to enable managers to use funds in the most efficient manner consistent with congressional priorities.

Our work provides information and analysis directed at each of these challenges. Specifically, our work (1) provides the Congress with deficit reduction analysis and reduction options and strategies, (2) recommends improvements in the budget presentation and choices provided by the budget and budget process, (3) highlights for decisionmakers the choices between consumption and investment spending and provides criteria and analysis to decisionmakers to help in the selection of effective investments, and (4) assesses the impacts of budget rules and incentives on management and examines the potential impacts of proposed budget changes on both managerial efficiency and congressional oversight.

Deficit Reduction

Deficit reduction is essential to our nation's long-term economic health. The fiscal year 1993 deficit is approximately \$254.9 billion, or 4 percent of the Gross Domestic Product, net interest is approximately \$199 billion, and debt held by the public approximately \$3.2 trillion. As we reported to the Congress last year, failure to make difficult choices concerning what responsibilities the federal government will carry out and how those activities will be financed will lead to increasingly large deficits, accompanied by steady erosion of economic growth.

Our analysis of the impact of the deficit on economic growth and productivity has provided the public, private policy organizations, and the Congress with information required to develop a perspective on recent economic experiences and on the administration's economic plan.

A provision similar to recommendations that we made to the House and Senate Budget Committees regarding budget control was applied to existing entitlements and mandatory programs by the House and

incorporated by the President in an executive order following the passage of the Omnibus Reconciliation Act of 1993. Our report on the implications of state balanced budget requirements for the federal government has contributed to congressional debate on a proposed federal balanced budget amendment and will be used again in the near future as the issue of a federal balanced budget is expected to be reintroduced for debate.

Our current work on deficit reduction options and strategies includes organizing a multiyear GAO-wide effort initiated by the Comptroller General to provide critical budget-related information to congressional and administrative decisionmakers.

Improving Budget Choices

The budget presentation provides a framework of choices and therefore heavily influences budget outcomes. Budget choices could be improved if the budget structure and process highlighted and provided needed information about critical budget choices. In addition, better information about the costs of federal programs and a greater ability to link budgeting and accounting data could enhance the quality of budget decisions.

Our review of linkages between budgeting and financial statements at the Department of Veterans Affairs identified problems that result when accounting systems are not structured to provide the types of data needed in the budget process. We developed and presented new financial reporting models that would result in the audit of actual budget execution data and better recognition of future budgetary claims. The Office of Management and Budget (OMB) incorporated several of our proposed recommendations into its guidance for the preparation of financial statements. Also, the financial reporting models served as a starting point for the Federal Accounting Standards Advisory Board in its efforts to develop more-relevant and more-useful financial reports.

We informed the Congress of the factors that led to the substantial differences between estimates and actual results for receipts and outlay accounts for fiscal year 1992. This analysis was used by the Senate Committee on Budget in formulating the Senate Budget Resolution for fiscal years 1994-98.

Our work on restructuring the way budget data are presented has focused on helping decisionmakers understand the long-term economic impact of their choices. Information provided to both the Congress and the administration has contributed to the current debate on investment and

capital budgeting issues and has been incorporated into congressional capital budgeting proposals.

Investment

Our work on the economic impact of the deficit identified the need to refocus the budget structure to promote a shift in the composition of federal spending from consumption to investment programs. Our work on restructuring the way budget data are presented has assisted the Congress in looking at investment as a share of the budget. In addition, our current work on investment provides criteria and analysis to help decisionmakers select effective investments. For example, we have issued a framework to help the Congress choose effective federal investments. We have also established a network within GAO to work with other divisions in evaluating federal investments.

We provided valuable input to OMB regarding its guidance to agencies on evaluating investment programs. Because of our efforts, OMB has requested our continuing advice and counsel as it works with the executive agencies over the next year to plan evaluation designs.

Budget Issues in the Reinventing Government Agenda

The reinventing government agenda—the conceptual driver for the Vice President’s National Performance Review as well as pending performance measures bills—has focused new attention on the impact of budget rules and incentives on agency management and program delivery. Our report to the Congress and OMB on the uses and the limitations of performance measurement and budgeting and the potential implications of state experiences for the federal government highlighted the need for fundamental change, especially in the area of better cost accounting systems to support performance budgeting at the federal level. Our report on performance budgeting documented implementation issues that OMB incorporated into its discussions on the implementation of the Government Performance Results Act of 1993.

We plan to focus our current work on the examination of budget formulation and execution procedures, paying particular attention to proposals discussed in the National Performance Review. We will examine the impact on agency management of executive branch rules and incentives for controlling funds, as well as reviewing congressional techniques for control, such as rescissions, earmarking, reprogramming, and transfers.

Key Open Recommendations

We are required by law to submit an annual compliance report that addresses compliance by OMB and the Congressional Budget Office (CBO)

with the Budget Enforcement Act of 1990. When we reviewed the reports and presidential orders for the session of the Congress ended January 3, 1992, we reported that OMB and CBO had substantially complied with the act, but we found several minor instances in which either OMB or CBO, or both, had not implemented certain provisions. We discussed several matters for congressional consideration for making technical corrections to the act to clarify certain areas and allow more precise implementation. The Congress considered changes to the Budget Enforcement Act of 1990 for inclusion in the Omnibus Reconciliation Act of 1993. While no changes were enacted in the Omnibus Reconciliation Act of 1993, the Conference Report on the Budget Reconciliation Act of 1993 indicated that the House intended to pursue changes to the Budget Enforcement Act of 1990 at a later date. (GAO/AFMD-92-43)

**Related Products With
Open Recommendations:
Budget**

Product Title

Budget Issues: Compliance Report Required by the Budget Enforcement Act of 1990 (GAO/AFMD-92-43)

GAO Contact: Jeffrey C. Steinhoff, 202/512-9454

Civil Audits Issue Area (Budget Function 990)

Impact of GAO's Work

Our civil agency audits have illustrated the importance of reliable financial statements and effective systems in strengthening accountability and improving control over the federal government's financial resources and affairs. The preparation and the audit of accurate and useful financial statements depends upon the quality and the availability of the financial information on which they are based and ultimately the adequacy of the underlying systems and related internal controls. The government's financial systems and internal controls are woefully inadequate. But, even though agencies have spent billions of dollars to upgrade their financial systems, these efforts have had limited success. Many federal financial systems are weak, outdated, and inefficient and cannot routinely produce relevant, timely, and accurate data on the results and the costs of operations.

Chief Financial Officers Act of 1990

Since its passage 3 years ago, the Chief Financial Officers (CFO) Act of 1990 has set the foundation for effective implementation and for beginning the process of change. A mechanism for reform is now in place, which represents a major accomplishment of our work and our long-term commitment to restore integrity to the federal government's financial management operations. The act can achieve substantive change, but this is just the first step; reform will require strong leadership, new thinking, and sustained high-level support and oversight.

While much more needs to be done, agencies are beginning to recognize and fix their extensive financial systems deficiencies, come to grips with financial personnel recruitment and retention problems, and understand better the benefits to be gained through using new types of useful and relevant financial reports that are backed up by annual audits. We have helped agency managers and others become familiar with the CFO Act's principal features and more fully understand the actions needed to successfully implement the act. We have worked to foster adoption of appropriate financial reporting and accounting standards, promote quality financial audits and audit methods, and develop meaningful performance measures and cost systems. As part of our Transition Series, our report entitled Financial Management Issues (GAO/OCG-93-4TR) discusses the (1) widespread financial management weaknesses that exist in government today, (2) role of the CFO Act in providing a road map for

reform, (3) steps needed to fully implement this act and make good financial management a reality, and (4) further necessary actions.

Other Financial Management Improvements

Our civil audits, over the past several years, have also resulted in other significant improvements in federal financial management. We demonstrated, for example, through discussion and analysis of several agencies' financial operations, the type of information that will give the Congress and the President greater insight into, and understanding of, agencies' financial affairs and the type of information that should be addressed in agency reports and attested to by the independent auditor. We have also conducted financial audits resulting in significant improvements in the quality of agency financial information and identified serious problems in agency financial operations. Most recently, we completed the first financial audits of the Internal Revenue Service (IRS) and the Customs Service, which were done under the CFO Act's pilot program of agency-level audited financial statements (GAO/AIMD-93-2 and GAO/AIMD-93-3). In addition, we audited the Department of Education's Federal Family Education Loan Program's financial statements for fiscal year 1992 (GAO/AIMD-93-4).

We have also facilitated fundamental change in the government's Financial Integrity Act program and strengthened implementation of the act. We have developed a program that will enable the Office of Management and Budget (OMB) and the agencies to focus on high-risk areas and to provide leadership to redirect the government's program for addressing long-standing internal control problems. Also, we have issued a series of reports that summarize our findings and recommendations for 17 federal programs identified as highly susceptible to waste, fraud, abuse, and mismanagement.

Our repeated emphasis on the need for long-range financial management planning for the government has resulted in OMB's issuing, in April 1992, its first 5-year federal financial management status report under the CFO Act. The plan outlines OMB's approach to implementing the act and provides its vision as to what constitutes good financial management.

Our recommendations that delinquent nontax debt owed to agencies be collected through the IRS refund offset led the Congress, in 1993, to make this program mandatory through legislation; the program is expected to save the government billions of dollars. Also, the Congress passed legislation requiring agencies to report closed-out debts to IRS as income to the debtors, which we also recommended.

Key Open
Recommendations

Across government, effective financial management operations and information are hampered by financial systems that are incompatible; have been allowed to deteriorate; are out of date; and cannot meet managers' cost, performance measurement, and other financial information needs. Agencies face a great challenge in providing strong financial management, effective internal controls, and sound fiscal accountability, but the investment will pay for itself many times over in improved operations and useful information for decisionmaking.

Governmentwide
Recommendations

We have continually pressed agencies and the administration to improve credit management and debt collection practices. Our report on OMB's nine-point credit management program recommended that the Congress amend the Debt Collection Act of 1982 to require agencies, where consistent with program legislation, to use provisions of the act that are now optional and other credit management techniques. We continue to consider strengthened legislation in the credit management area to be an extremely important element for improving the government's loan programs, with billions in savings possible. (GAO/AFMD-90-12)

Agency-Specific
Recommendations

Over the years, we have made many agency-specific recommendations to correct problems of fundamental accounting procedures, including serious internal control and accounting system weaknesses. The following recommendations deserve priority attention.

We recommended, in our report on IRS' accounts receivable, certain actions to develop a strategy for distinguishing between assessments that should be included in the receivables and those that should not, to include only valid receivables in the balances reported in IRS financial statements, and to modify IRS' methodology for assessing the collectibility of its receivables. (GAO/AFMD-93-42)

In our report on the National Aeronautics and Space Administration's internal controls and financial management systems, we recommended actions necessary to improve the reliability of contractor cost data, improve controls over the accounting for and reporting of contractor-held property, strengthen budgetary funds controls to ensure proper use of resources, and resolve discrepancies in general ledger accounts to improve the accuracy of financial reporting to Treasury. (GAO/AFMD-93-3)

Regarding the serious deficiencies we found in the Department of State's financial systems, which require sustained attention, we recommended actions to give top priority to resolving fundamental financial problems

and emphasize short-term actions, monitor long-range standardization and integration efforts, and ensure that future financial systems development and enhancement projects incorporated reporting requirements to meet users' needs. (GAO/AFMD-93-9)

We recommended actions to improve Education's Guaranteed Student Loan Program internal controls, including the preparation of a comprehensive plan on the role of guaranty agencies and the manner in which they are compensated. The plan should recommend changes in the program that would provide more effective incentives to guaranty agencies and lenders to help prevent defaults, improve controls over conflicting activities by guaranty agencies, and enhance federal oversight. (GAO/AFMD-93-20)

In our report on the serious problems that the Bureau of Indian Affairs was experiencing in accounting for and reconciling Indian trust fund moneys totaling more than \$2 billion, we recommended that the Department of the Interior seek alternative ways to reconcile the accounts and develop a proposal for reaching a satisfactory resolution of the trust fund account balances with account holders. (GAO/AFMD-92-38)

We recommended a number of actions that the Commissioner of Customs could take to improve accounting for and control over resources, including receivables and property, and to collect billions of dollars in duties and fees and additional millions of dollars in amounts owed to the agency. (GAO/AFMD-92-30)

Further Actions Needed on Key Open Recommendations

Major improvements are needed to restore integrity to the federal government's financial management operations. Key elements of successful federal financial management reform are high-quality leadership, an effective CFO organizational structure, effective long-range planning, and preparation of meaningful and auditable financial statements. While agencies have made some progress in these areas, making substantive and lasting improvements is possible by taking prompt actions necessary to implement our recommendations and to meet the CFO Act's requirements.

**Related Products With
Open Recommendations:
Civil Audits**

Product Title

Bureau of Indian Affairs' Efforts to Reconcile and Audit the Indian Trust Funds (GAO/T-AFMD-91-2)

Cost Accounting: Department of Energy's Management of Contractor Pension and Health Benefit Costs (GAO/AFMD-90-13)

Credit Management: Deteriorating Credit Picture Emphasizes Importance of OMB's Nine-Point Program (GAO/AFMD-90-12)

Federal Credit Programs: Agencies Had Serious Problems Meeting Credit Reform Accounting Requirements (GAO/AFMD-93-17)

Federal Tax Deposit System: IRS Can Improve the Federal Tax Deposit System (GAO/AFMD-93-40)

Financial Audit: Department of Veterans Affairs Financial Statements for Fiscal Years 1989 and 1988 (GAO/AFMD-91-6)

Financial Audit: EPA's Financial Statements for Fiscal Years 1988 and 1987 (GAO/AFMD-90-20)

Financial Audit: Forest Service's Financial Statements for Fiscal Year 1988 (GAO/AFMD-91-18)

Financial Audit: Guaranteed Student Loan Program's Internal Controls and Structure Need Improvement (GAO/AFMD-93-20)

Financial Audit: IRS Significantly Overstated Its Accounts Receivable Balance (GAO/AFMD-93-42)

Financial Audit: Veterans Administration's Financial Statements for Fiscal Year 1986 (GAO/AFMD-87-38)

Financial Audit: Veterans Administration's Financial Statements for Fiscal Years 1987 and 1986 (GAO/AFMD-89-23)

Financial Audit: Veterans Administration's Financial Statements for Fiscal Years 1988 and 1987 (GAO/AFMD-89-69)

Financial Management: Actions Needed to Ensure Effective Implementation of NASA's Accounting System (GAO/AFMD-91-74)

Financial Management: BIA Has Made Limited Progress in Reconciling Trust Accounts and Developing a Strategic Plan (GAO/AFMD-92-38)

Financial Management: Customs Needs to Establish Adequate Accountability and Control Over Its Resources (GAO/AFMD-92-30)

Financial Management: Education's Student Loan Program Controls Over Lenders Need Improvement (GAO/AIMD-93-33)

Financial Management: IRS Lacks Accountability Over Its ADP Resources (GAO/AIMD-93-24)

Financial Management: NASA's Financial Reports Are Based on Unreliable Data (GAO/AFMD-93-3)

Financial Management: Opportunities for Improving VA's Internal Accounting Controls and Procedures (GAO/AFMD-89-35)

Financial Management: Serious Deficiencies in State's Financial Systems Require Sustained Attention (GAO/AFMD-93-9)

Financial Management: The U.S. Mint's Accounting and Control Problems Need Management Attention (GAO/AFMD-89-88)

Immigration Management: Strong Leadership and Management Reforms Needed to Address Serious Problems (GAO/GGD-91-28)

IRS Information Systems: Weaknesses Increase Risk of Fraud and Impair Reliability of Management Information (GAO/AIMD-93-34)

Management of HHS: Using the Office of the Secretary to Enhance Departmental Effectiveness (GAO/HRD-90-54)

Managing IRS: Actions Needed to Assure Quality Service in the Future (GAO/GGD-89-1)

Managing IRS: Important Strides Forward Since 1988 but More Needs to Be Done (GAO/GGD-91-74)

Medicare: HCFA Should Improve Internal Controls Over Part B Advance Payments (GAO/HRD-91-81)

National Archives: A Review of Selected Management Issues (GAO/AFMD-89-39)

Superfund: EPA Cost Estimates Are Not Reliable or Timely (GAO/AFMD-92-40)

Corporate Audits Issue Area (Budget Function 990)

GAO Contact: Robert W. Gramling, 202/512-9406

Impact of GAO's Work

Government corporations provide trillions of dollars in guarantees and insurance in support of the nation's major financial industries, including banks, savings and loan institutions, credit unions, and pension plans. Past severe problems in the savings and loan and banking industries and the termination of large underfunded pension plans have focused the attention of policymakers and the public on the taxpayers' significant exposure to loss through the government's credit and insurance activities.

Although the condition and the performance of both banks and thrifts have recently improved, segments of the industry remain troubled and the insurance funds need to be rebuilt to statutorily required levels. In addition, the Pension Benefit Guaranty Corporation (PBGC) faces a large and growing deficit that threatens the insurance program's long-term viability. To take prompt action and minimize the taxpayers' exposure and costs, the Congress and regulators need reliable and informative financial reporting that provides early warning on emerging problems. To provide the necessary information, we have focused our work on ensuring that corporate entities accurately report their financial condition and performance, maintain internal control structures that provide accountability and safeguard assets, and effectively implement the requirements of the Chief Financial Officers (CFO) Act of 1990. We have also begun evaluating whether generally accepted accounting principles and auditing standards provide an adequate basis for assessing financial condition and operating performance.

Financial Statement Audits

We have worked closely with the Resolution Trust Corporation (RTC), the Federal Deposit Insurance Corporation (FDIC), and PBGC to improve the reliability of their financial data and internal control systems and we have seen considerable progress over the past few years. For 1992, all three corporations received an unqualified opinion on their balance sheets. Because previous financial audits highlighted deficiencies in the corporations' recognition and measurement of loss contingencies, all three, in 1992, improved their methods used to estimate future losses associated with insurance activities. Our audits have also disclosed internal control weaknesses of varying significance. In general, the corporations have agreed with our findings and acted quickly to address most weaknesses. In fact, many informal recommendations for improved

reporting or internal controls are implemented by management before our audit work is complete. We expect internal control problems in some areas to continue in the future, however.

Our 1992 financial audit work also has provided the Congress with vital information on the corporations' status and funding needs. Although the condition of the banking industry has improved, we warned that the Bank Insurance Fund could remain undercapitalized for a number of years and, therefore, remained vulnerable to adverse changes in economic conditions. The Fund's reserves must be rebuilt to enable it to handle any significant level of bank failures. Like the condition of the banking industry, the condition of the savings and loan industry showed considerable improvement in 1992. But, we have reported that many failed thrifts continue to lose money and add to the taxpayers' costs because RTC lacks sufficient funds to close them. On October 1, 1993, failed thrifts not resolved by RTC will become the responsibility of the Savings Association Insurance Fund, which is expected to have a balance of less than \$1.5 billion at that time. Finally, we have warned that PBGC's large and growing deficit threatens the insurance program's long-term viability and have supported legislative action to strengthen the funding standards for defined benefit pension plans.

We have also focused on the efforts of government corporations to implement the CFO Act. We discussed with the Office of Management and Budget and each of the 33 corporations subject to the act the requirement for management's assessment of internal controls and have worked with each corporation to provide guidance for preparing the management report. In 1992, all but one government corporation was being audited, and nearly all have issued the required assessment reports.

Accounting and Auditing Standards

Our efforts to urge accounting and auditing standard-setters to adopt more realistic measures of financial condition and operating performance focused on asset valuation rules and reporting on internal controls. Two important standards were issued by the Financial Accounting Standards Board during 1993 affecting asset valuation—SFAS No. 114, Accounting by Creditors for Impairment of a Loan, and SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. While these new standards are a positive step toward improving financial reporting, they fall short of fully adopting fair value accounting for these types of assets, which we believe is a more realistic basis for establishing asset values.

With regard to reporting on internal controls, in 1992, we provided FDIC with detailed, comprehensive suggestions for development of regulations to implement the internal control provisions of the FDIC Improvement Act of 1991. But, we do not believe that FDIC issued sufficiently detailed regulations for proper implementation of the act. We plan to review the actual procedures employed by financial institutions and their auditors to address the act's requirements for assessment of internal controls.

Key Open Recommendations

Pension Benefit Guaranty Corporation's Management and Control Systems

In our audit of PBGC's fiscal year 1992 financial statements, we found that PBGC made substantial progress in dealing with significant system and internal control weaknesses and in addressing key recommendations made in our earlier report on PBGC's fiscal year 1990 financial statements. (GAO/AFMD-92-1) This progress enabled us, for the first time, to opine on PBGC's statement of financial condition. PBGC, however, continues to face weaknesses in financial systems and internal controls. Our report on the fiscal year 1992 audit made additional recommendations to address weaknesses in systems integration, internal controls, financial reporting, and the assessment of contingent liabilities. PBGC is addressing these weaknesses and, as part of the fiscal year 1993 financial statement audit, we will assess its progress. (GAO/AIMD-93-21)

Resolution Trust Corporation's Internal Control System

Our 1992 financial statement audit of RTC disclosed several internal control weaknesses that could affect RTC's ability to safeguard its assets from unauthorized use or disposition or to ensure that its financial reports are complete and accurate. In our report on its internal controls at December 31, 1992, we recommended that RTC take actions to ensure that loss accruals are accurately calculated and that control procedures related to field office reconciliations and journal entry preparation are proper and consistently followed. RTC has agreed to address these weaknesses in 1993, and we will monitor its progress as part of our 1993 financial statement audit. (GAO/AIMD-93-50)

Federal Deposit Insurance Corporation's Internal Control System

In our report on the Savings Association Insurance Fund's (SAIF) 1991 financial statements, we recommended action to improve FDIC's internal controls over its time and attendance reporting process. FDIC has worked to address the weaknesses identified in our report and anticipates resolving them through the issuance of a revised time and attendance reporting directive and increased training during 1993. As part of our 1993

SAIF financial statement audit, we will assess FDIC's success in addressing these weaknesses. (GAO/AFMD-92-72)

Review of Bank and Thrift Examinations

Our review on bank and thrift examinations performed by FDIC, the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision disclosed that the examinations were too limited to fully identify and determine the extent of deficiencies affecting the safety and the soundness of insured depository institutions. We made various recommendations to the regulators in our reports to improve the scope and the quality of the examinations. These recommendations focused on the need to take a more proactive approach to the examination of banks and thrifts, including more emphasis on assessing internal controls, representative sampling of the loan portfolio, and development of a sound methodology for assessment of the adequacy of loan loss reserves. The receptiveness to our recommendations varied among the four regulatory agencies. We will continue to monitor the agencies' progress to assess the effectiveness of changes in the examination process. (GAO/AFMD-93-11, GAO/AFMD-93-12, GAO/AFMD-93-13, and GAO/AFMD-93-14)

In our summary report on the examination review, we asked the Congress to consider the appropriateness of the present regulatory structure. Since that time, several bills have been introduced, and are still pending, which propose changes to the current regulatory structure. (GAO/AFMD-93-15)

Related Products With Open Recommendations: Corporate Audits

Product Title

Asset Management System: Liquidation of Failed Bank Assets Not Adequately Supported by FDIC System (GAO/IMTEC-93-8)

Bank and Thrift Regulation: Improvements Needed in Examination Quality and Regulatory Structure (GAO/AFMD-93-15)

Bank Examination Quality: FDIC Examinations Do No Fully Assess Bank Safety and Soundness (GAO/AFMD-93-12)

Bank Examination Quality: FRB Examinations Do Not Fully Assess Bank Safety and Soundness (GAO/AFMD-93-14)

Bank Examination Quality: OCC Examinations Do Not Fully Assess Bank Safety and Soundness (GAO/AFMD-93-13)

Credit Unions: Reforms for Ensuring Future Soundness (GAO/GGD-91-85)

Employee Benefits: Improved Plan Reporting and CPA Audits Can Increase Protection Under ERISA (GAO/AFMD-92-14)

Financial Audit: Pension Benefit Guaranty Corporation's 1992 and 1991 Financial Statements (GAO/AIMD-93-21)

Financial Audit: Resolution Trust Corporation's Internal Controls at December 31, 1992 (GAO/AIMD-93-50)

Financial Audit: Savings Association Insurance Fund's 1991 and 1990 Financial Statements (GAO/AFMD-92-72)

Financial Audit: System and Control Problems Further Weaken the Pension Benefit Guaranty Corporation (GAO/AFMD-92-1)

Pension Plans: Pension Benefit Guaranty Corporation Needs to Improve Premium Collections (GAO/HRD-92-103)

Premium Accounting System: Pension Benefit Guaranty Corporation System Must Be an Ongoing Priority (GAO/IMTEC-92-74)

Resolution Trust Corporation: Assessing Portfolio Sales Using Participating Cash Flow Mortgages (GAO/GGD-92-33BR)

Thrift Examination Quality: OTS Examinations Do Not Fully Assess Thrift Safety and Soundness (GAO/AFMD-93-11)

Defense Audit Issue Area (Budget Function 990)

GAO Contact: David M. Connor, Jr., 202/512-9095

Impact of GAO's Work

Our work has concentrated on the systems and internal controls the Department of Defense (DOD) used both as a basis for its financial reporting and in accounting for and controlling its extensive inventories, weapon systems, equipment, and other assets. In particular, our audits illustrated the importance of reliable financial information and effective systems in strengthening accountability and improving controls over DOD's multibillion-dollar investment in equipment and inventories. Many DOD systems are weak, outdated, and inefficient and cannot routinely produce relevant, timely, and accurate information on the results and the costs of DOD's operations.

As demonstrated by DOD's recent "Bottom-Up" Review and the administration's National Performance Review, as well as decisions made through the base realignment and closure process, DOD is under increasing pressure to work better and reduce costs. Specifically, DOD's Bottom-Up Review identified about \$91 billion in programmatic reductions, including reductions of over 300,000 military and civilian personnel, 2 Army divisions, 3 active Air Force fighter wings, and 55 Navy surface ships and submarines. At the same time, the Secretary of Defense set an overriding goal of accomplishing such downsizing while maintaining the ability to meet our worldwide defense commitments and sustain our high level of military capability, thus avoiding the "hollow armies" resulting from past drawdown initiatives. As a result, more reliable and relevant financial information on the resources for which it is responsible and on the costs of operations will be increasingly important if DOD is to make well-informed tradeoff decisions on how to structure and base remaining forces and how best to administratively operate and support this new structure.

Financial Statement Audits

Our financial statement audit work identified weaknesses in the basic controls over the accuracy of financial data and in the financial information managers need to support effective management and oversight, as well as accountability over DOD's extensive inventories of weapons systems, equipment, and supplies. As such, our financial audits resulted in (1) significant improvements in the quality of agency financial information, (2) the identification of serious problems in DOD's financial operations, and (3) improvements in financial accounting and reporting

that will enable the Department not only to better meet its own management information needs but also the reporting objectives of the Chief Financial Officers Act as well.

In fiscal year 1992, we reported on our first comprehensive financial audit of the Army and our second such audit of the Air Force. In fiscal year 1993, we completed our second audit of the Army, and we monitored the Air Force Audit Agency's audit of the Air Force's financial operations—its first financial statement audit. As a result of our audits, DOD has begun to recognize the benefits of improved financial reporting backed by annual audits and has begun to fix its extensive financial systems deficiencies. For fiscal year 1994, we plan to work with the Army Audit Agency in conducting an audit of the Army's financial statements. In addition, we plan to conduct a similar audit of the Navy's fiscal year 1994 financial reporting.

Financial Management Practices

Because the public, the Congress, and executive branch officials are increasingly concerned about the federal government's fiscal condition, DOD has initiated far-reaching efforts to improve and modernize its financial practices, systems, and controls. These initiatives, many of which are relatively long term, are intended to eliminate redundancies by standardizing policies, procedures, and systems. Two of DOD's major efforts aim to reform the way business functions are performed through the use of a separate fund (the Defense Business Operations Fund) and system improvements (the Corporate Information Management initiative).

Our audits focused on helping to identify areas of DOD's financial management operations that provide opportunities to achieve greater efficiency and effectiveness. For example, our work has pointed out that DOD must adopt policies that are fully consistent with businesslike practices to effectively manage the \$81 billion Defense Business Operations Fund. We demonstrated that existing DOD systems used to manage and control resources must be substantially upgraded and effective new systems must be developed and implemented. Overall, our work to date shows that DOD has made limited progress in implementing its financial management improvement initiatives, consequently reducing the initiatives' cost-saving potential.

Internal Controls

We focused on identifying whether DOD's internal controls ensured that its financial management systems could accurately capture, process, and report on day-to-day transactions involving billions of dollars. Numerous recommendations have resulted in improvements in DOD's ability to ensure

the integrity and the reliability of financial information, to safeguard its assets, and to promote conformity with proper operating procedures.

Key Open Recommendations

Although DOD has increased its ability to accurately account for and report on its financial operations and the financial status of its resources, much more remains to be done. The following are among the most important recommendations that have not yet been fully implemented.

Army Programs

In June 1993, we reported that we could not express an opinion on the reliability of Army's fiscal year 1992 financial statements, in part because actions had not been completed on previous recommendations. Specifically, our August 1992 report on the Army's financial management operations and financial reporting contained recommendations for improving overall financial management by (1) enhancing internal controls and accountability over assets and resources, (2) developing reliable financial performance measures, (3) improving integration of logistics and financial systems, and (4) delineating financial management responsibilities between the Army and the Defense Finance and Accounting Service. (GAO/AFMD-92-82)

In addition, our January 1993 report on depot maintenance for Army weapons and equipment contained recommendations directed at improving (1) safeguards over assets during the maintenance process and (2) records and reports on job order maintenance costs. Specifically, we found that inadequate protection of Army assets led to increased scrappage rates and maintenance costs and that weak accounting controls contributed to the inclusion of nonmaintenance costs in maintenance cost reporting. (GAO/AFMD-93-8)

Air Force Programs

In our August 1992 report on the Air Force's budgeting for repairable inventory items, which constitutes about \$31 billion of Air Force inventories, we recommended that the Secretary of the Air Force improve the financial management and internal control systems used to develop budget estimates and to make purchase decisions for repairable items. Our recommendations focused on (1) implementing controls to help ensure the reliability of inventory data, (2) internal reporting to improve the Air Force Logistics Command's oversight of the Air Logistics Center, (3) revising procedures to eliminate unsupported adjustments to inventory records, and (4) reporting the system and internal control weaknesses in the annual Federal Managers' Financial Integrity Act report until corrected. (GAO/AFMD-92-47)

In February 1992, we issued our second comprehensive report on Air Force's financial management operations. This report built upon the work and the recommendations included in our February 1990 report, which contained 26 recommendations to improve financial controls, accountability, and reporting. In our latest report, we noted that many of our previous recommendations were still appropriate and that DOD and the Air Force were relying largely on long-term DOD initiatives to improve financial systems. We recommended that (1) DOD give high priority in the short term to improving the reliability of data in the Air Force's primary accounting systems and (2) budgetary systems be used to compile more-reliable costs of weapon systems. (GAO/AFMD-90-23 and GAO/AFMD-92-12)

A November 1992 report on Air Force depot maintenance, a Defense Business Operations Fund activity, recommended that DOD implement procedures to more accurately determine costs for billing customers, improve billing practices, and ensure compliance with Defense policies regarding operations of the Fund. (GAO/AFMD-93-5)

Navy Programs

In June 1993, we issued a report recommending that the Assistant Secretary of the Navy for Financial Management take actions to help prevent unmatched disbursements and to correct the \$13.6 billion of unmatched disbursements contained in one major accounting system. We also recommended that this problem be reported as a material weakness in the Navy's annual Federal Managers' Financial Integrity Act report to DOD. (GAO/AFMD-93-21)

Our March 1993 report on Navy's depot maintenance industrial fund, a Defense Business Operations Fund organization, showed that the fund had losses totaling over \$790 million because it did not recover all costs incurred in providing customers with goods and services. The report's recommendations focused on ensuring that (1) prices were based on realistic estimates of the costs that would be incurred in providing the goods and services to customers and (2) prices were not adjusted by factors not directly related to the costs incurred, such as the recovery of prior year losses. (GAO/AFMD-93-18)

DOD-Wide Programs

Our report on DOD's plans to change its method of financing over \$70 billion of repairable inventory recommended that the Secretary of Defense develop a uniform policy on the ownership and the control of repairable items in the installation-level supply system. DOD is developing a policy to address our concerns. (GAO/AFMD-91-40)

In another report on the financing of repairable inventory items through the stock fund, we recommended that the Secretary of Defense improve DOD's financial management systems to ensure that DOD accurately (1) track items being returned from customers to the stock fund and (2) bill customers for items purchased from the stock fund. The lack of accurate inventory data could result in DOD's buying too much inventory or the wrong mix of items. To address our concerns, DOD is enhancing its financial management systems. (GAO/AFMD-92-15)

**Related Products With
Open Recommendations:
Defense Audits**

Product Title

Air Force Depot Maintenance: Improved Pricing and Financial Management Practices Needed (GAO/AFMD-93-5)

Defense Inventory: Growth in Air Force and Navy Unrequired Aircraft Parts (GAO/NSIAD-90-100)

Defense Inventory: Growth in Ship and Submarine Parts (GAO/NSIAD-90-111)

Financial Audit: Aggressive Actions Needed for Air Force to Meet Objectives of the CFO Act (GAO/AFMD-92-12)

Financial Audit: Air Force Does Not Effectively Account for Billions of Dollars of Resources (GAO/AFMD-90-23)

Financial Audit: Financial Reporting and Internal Controls at the Air Force Systems Command (GAO/AFMD-91-22)

Financial Audit: Financial Reporting and Internal Controls at the Air Logistics Centers (GAO/AFMD-91-34)

Financial Management: Air Force Systems Command Is Unaware of Status of Negative Unliquidated Obligations (GAO/AFMD-91-42)

Financial Management: Army Conventional Ammunition Production Not Effectively Accounted for or Controlled (GAO/AFMD-92-57)

Financial Management: Army Lacks Accountability and Control Over Equipment (GAO/AIMD-93-31)

Financial Management: Defense's System for Army Military Payroll Is Unreliable (GAO/AIMD-93-32)

Financial Management: DOD Faces Implementation Problems in Stock Funding Repairable Inventory Items (GAO/AFMD-92-15)

Financial Management: Immediate Actions Needed to Improve Army Financial Operations and Controls (GAO/AFMD-92-82)

Financial Management: Inadequate Accounting and System Project Controls at AID (GAO/AFMD-93-19)

Financial Management: Internal Control Weaknesses Impede Air Force's Budgeting for Repairable Items (GAO/AFMD-92-47)

Financial Management: Navy Industrial Fund Has Not Recovered Costs (GAO/AFMD-93-18)

Financial Management: Poor Internal Control Has Led to Increased Maintenance Costs and Deterioration of Equipment (GAO/AFMD-93-8)

Financial Management: Problems in Accounting for DOD Disbursements (GAO/AFMD-91-9)

Financial Management: Uniform Policies Needed on DOD Financing of Repairable Inventory Items (GAO/AFMD-91-40)

Financial Management: Weak Financial Accounting Controls Leave Commodity Command Assets Vulnerable to Misuse (GAO/AFMD-92-61)

Financial Systems: Weaknesses Impede Initiatives to Reduce Air Force Operations and Support Costs (GAO/NSIAD-93-70)

Management Review: Follow-Up on the Management Review of the Defense Logistics Agency (GAO/NSIAD-88-107)

Information Management and Technology Issue Area (Budget Function 990)

GAO Contact: Jack L. Brock, 202/512-6406

Impact of GAO's Work

How information resources—hardware, software, data, and people—are acquired and managed is critical to nearly every government program's mission—from exploring space, to collecting taxes, to providing social security benefits. The government spends about \$20 billion annually acquiring the thousands of telecommunications and computer systems that support these missions.

Responsibility for information management and technology is shared by the central and individual executive agencies. The central agencies—the Office of Management and Budget, the General Services Administration, and the Department of Commerce's National Institute of Standards and Technology—formulate policies, procedures, and standards and monitor individual agency information resource management activities. Individual agencies are responsible for acquiring, managing, and using their information resources effectively and efficiently.

We addressed information management and technology issues both governmentwide and as they affect specific agencies. Governmentwide, our recommendations dealing with the purchase of new computers and information systems have had particular impact. We disclosed that civilian agency modernization projects were being implemented before agencies reassessed, simplified, and streamlined their business practices. On the basis of our recommendations, agencies are starting to focus their modernization efforts on the strategic uses of technology for achieving their mission. The central agencies also are taking a more active role in helping individual agencies to develop business plans based on mission goals, analysis of business practices, and long-range information technology planning.

In our agency-specific work, we reviewed issues related to the acquisition and the management of computer and telecommunications resources, including development of information systems. Our reviews covered such areas as asset management, child support enforcement, pension benefits, welfare programs, internal revenue, health care management, pesticide

registration, weather forecasting, and crop insurance. We also evaluated agency management of information for increased program effectiveness.

Key Open Recommendations

Presently, all key open governmentwide recommendations are being addressed. The following key open agency-specific recommendation relates to the Department of Defense's corporate information management strategy.

Our agency-specific reports fall into substantive areas that concern other issue areas. For example, a report on the Federal Deposit Insurance Corporation's (FDIC) automatic data processing programs supplements and complements the work of the financial institutions and markets issue area. Because our reports address specific programs, they are included in the appropriate issue area sections of this report. For example, our report on FDIC's Asset Management System is found in the section on "Financial Institutions and Markets."

Department of Defense: Corporate Information Management (CIM)

The Department of Defense has made little progress in implementing the recommendations in our September 1992 report. Defense is at a turning point regarding CIM. The new leadership of the incoming administration is reassessing the overall strategy of the CIM initiative. It is unclear what this reassessment will encompass and when it will be completed. As one of the largest information management initiatives ever undertaken, CIM has great promise—not only for Defense but for other federal agencies and the nation as well. By improving business operations with less resources, Defense can improve its war-fighting capabilities while shifting scarce resources to other national needs. Implementing CIM, however, requires a major cultural change in managing information resources that Defense is finding difficult to implement. Therefore, we believe it is critical for the Secretary of Defense to take an active role in implementing CIM. We are leaving the recommendations in our report open until we can determine if Defense's reassessment of CIM adequately addresses our concerns.

(GAO/IMTEC-92-77)

**Related Products With
Open Recommendations:
Information Management
and Technology**

Product Title

ADP Procurement: Prompt Navy Action Can Reduce Risks to SNAP III Implementation (GAO/IMTEC-92-69)

Air Force ADP: Lax Contract Oversight Led to Waste and Reduced Competition (GAO/IMTEC-93-3)

Air Traffic Control: FAA Needs to Justify Further Investment in Its Oceanic Display System (GAO/IMTEC-92-80)

Asset Management System: Liquidation of Failed Bank Assets Not Adequately Supported by FDIC System (GAO/IMTEC-93-8)

Collecting Back Taxes: IRS Phone Operations Must Do Better (GAO/IMTEC-91-39)

Composite Health Care System: Outpatient Capability Is Nearly Ready for Worldwide Deployment (GAO/IMTEC-93-11)

Crop Insurance Program: Nationwide Computer Acquisition Is Inappropriate at This Time (GAO/IMTEC-93-20)

Defense ADP: Corporate Information Management Must Overcome Major Problems (GAO/IMTEC-92-77)

Defense Communications: Defense's Program to Improve Telecommunications Management Is at Risk (GAO/IMTEC-93-15)

Department of Energy: Better Information Resources Management Needed to Accomplish Missions (GAO/IMTEC-92-53)

Embedded Computer Systems: Software Development Problems Delay the Army's Fire Direction Data Manager (GAO/IMTEC-92-32)

Energy Information: Department of Energy Security Program Needs Effective Information Systems (GAO/IMTEC-92-10)

Environmental Enforcement: EPA Needs a Better Strategy to Manage Its Cross-Media Information (GAO/IMTEC-92-14)

Environmental Enforcement: Penalties May Not Recover Economic Benefits Gained by Violators (GAO/RCED-91-166)

Environmental Protection: EPA's Plans to Improve Longstanding Information Resources Management Problems (GAO/AIMD-93-8)

FAA Information Resources: Agency Needs to Correct Widespread Deficiencies (GAO/IMTEC-91-43)

FTS 2000 Overhead: GSA Should Reassess Contract Requirements and Improve Efficiency (GAO/IMTEC-92-59)

GSA's Computer Security Guidance (GAO/AIMD-93-7R)

Health Information Systems: National Practitioner Data Bank Continues to Experience Problems (GAO/IMTEC-93-1)

High Performance Computing: Advanced Research Projects Agency Should Do More to Foster Program Goals (GAO/IMTEC-93-24)

Information Management: Immigration and Naturalization Service Lacks Ready Access to Essential Data (GAO/IMTEC-90-75)

Information Resources Management: Initial Steps Taken But More Improvements Needed in AID's IRM Program (GAO/IMTEC-92-64)

IRS Procurement: Software Documentation Requirement Did Not Restrict Competition (GAO/IMTEC-92-30)

Justice Automation: Tighter Computer Security Needed (GAO/IMTEC-90-69)

Medical ADP Systems: Automated Medical Records Hold Promise to Improve Patient Care (GAO/IMTEC-91-5)

Patent and Trademark Office: Key Processes for Managing Automated Patent System Development Are Weak (GAO/AIMD-93-15)

Pesticides: Information Systems Improvements Essential for EPA's Reregistration Efforts (GAO/IMTEC-93-5)

Premium Accounting System: Pension Benefit Guaranty Corporation System Must Be an Ongoing Priority (GAO/IMTEC-92-74)

Securities and Exchange Commission: Effective Development of the EDGAR System Requires Top Management Attention (GAO/IMTEC-92-85)

Software Tools: Defense Is Not Ready to Implement I-CASE Departmentwide (GAO/IMTEC-93-27)

SSA Computers: Long-Range Vision Needed to Guide Future Systems Modernization Efforts (GAO/IMTEC-91-44)

Treasury Automation: Automated Auction System May Not Achieve Benefits or Operate Properly (GAO/IMTEC-93-28)

Veterans Affairs IRM: Stronger Role Needed for Chief Information Resources Officer (GAO/IMTEC-91-51BR)

Veterans Benefits: Acquisition of Information Resources for Modernization Is Premature (GAO/IMTEC-93-6)

Weather Forecasting: Important Issues on Automated Weather Processing System Need Resolution (GAO/IMTEC-93-12BR)

Welfare Programs: Ineffective Federal Oversight Permits Costly Automated System Problems (GAO/IMTEC-92-29)

Legislative Reviews and Audit Oversight Issue Area (Budget Function 990)

GAO Contact: David L. Clark, Jr., 202/512-9489

Impact of GAO's Work

Auditing is an important control to help ensure that federal programs and operations are properly carried out and potential problems are identified and resolved promptly and effectively. Auditing also helps to ensure a strong system of governance and accountability in American corporations and institutions and helps to protect federal deposit insurance funds, stockholders and creditors, and taxpayers from exposure to unanticipated risks and losses. With the growing complexity of the federal government and the problems it faces, including severe fiscal strains, an independent and reliable structure must be in place to ensure adequate audit coverage of federal programs and operations, as well as public sector activities of interest to the government. Our work has focused on improving the quality and the effectiveness of audits of federal expenditures, ensuring the quality of audits performed by nonfederal auditors, strengthening corporate governance and accountability, and improving the financial management of legislative branch operations through regular financial statement audits.

In our oversight of the Inspectors General (IG) and other audit organizations, our reviews resulted in improved audit coverage, resource usage, and quality of work, as well as the removal of impairments to IG independence and authority. In addition, our audit resolution work prompted the Office of Management and Budget (OMB) to begin revising its audit followup guidance to ensure that agencies take action on IG audit recommendations.

In helping to strengthen corporate governance and accountability, our work on bank audit committees contributed to the passage of legislation requiring independent audit committees for all federally insured depository institutions. In recent years, many changes have taken place in the public accounting profession, and our reports on the quality of audits by certified public accountants contributed to the impetus for the changes. As a result of our work on the audits of private employee benefit plans, legislation was introduced in January 1993 that will enhance the value of plan audits. Additional legislation is being drafted by the Department of

Labor to encourage better plan management and to better protect the interests of plan participants and the government.

Regarding our legislative branch work, our financial statement audits of several legislative entities (such as the House and Senate Sergeants at Arms) and other legislative programs and operations (such as the Congressional Award Program and the Library of Congress) resulted in a number of improvements in their internal controls and accounting systems.

Key Open Recommendations

Inspector General Effectiveness

Over the years, federal managers have not paid adequate attention to implementing IG recommendations, which has rendered audit resources less effective and has resulted in losses in federal programs and operations. The audit resolution problems are attributable in part to outdated guidance in OMB Circular A-50, "Audit Followup," on closing audit recommendations. We have recommended that OMB revise the circular to require agencies to close audit recommendations and provide the necessary documentation to verify the closure when (1) agreed-upon corrective actions have been implemented, (2) alternative actions have been taken that essentially meet the auditors' intent, or (3) circumstances have changed and the recommendations are no longer valid. (GAO/AFMD-92-16)

Quality of Audits of Nonfederal Auditors

In our continuing review of the quality of audits by nonfederal auditors, we identified weaknesses in the audits of private employee benefit plans so serious that their reliability and usefulness were questionable. We have recommended that the Congress amend the Employee Retirement Income Security Act (ERISA) to (1) require reporting on the adequacy of internal controls by plan administrators and auditors, (2) provide for direct reporting to the Department of Labor of fraud and serious ERISA violations, and (3) require peer review of plan auditors. (GAO/AFMD-92-14)

Corporate Governance and Accountability

During the past several years, well-publicized cases of financial irregularities in many companies and financial institutions (such as those in the savings and loan industry) have raised serious questions about corporate accountability, the effectiveness of corporate governance and regulation, and the adequacy of audit requirements. We have supported congressional efforts to amend banking laws and securities laws to

increase both management's and the auditor's responsibilities for detecting and reporting irregularities. We have recommended that the Securities and Exchange Commission (1) ensure that managers of public companies publicly report on their responsibilities for financial statements and internal controls, (2) require the auditor to review and publicly report on the management report, and (3) adopt a requirement for public companies to establish audit committees. (GAO/AFMD-89-38)

Legislative Branch Operations

In the first-ever attempt to audit the financial operations of the Library of Congress, we found that the Library's financial and accounting records were in such poor condition that we could not audit significant account balances. Because of weaknesses in the Library's financial management operations, its ability to account for and control its collection of an estimated 89 million books and other materials was limited. We recommended that, to help the Library bring about lasting improvements in its internal controls, the Librarian of Congress (1) establish accounting and internal control policies and procedures to ensure compliance with applicable accounting standards and (2) develop an overall financial management improvement plan. (GAO/AFMD-91-13)

Related Products With Open Recommendations: Legislative Reviews and Audit Oversight

Product Title

Air Force Audit Agency: Opportunities to Improve Internal Auditing
(GAO/AFMD-90-16)

Audit Resolution: Strengthened Guidance Needed to Ensure Effective
Action (GAO/AFMD-92-16)

CPA Audit Quality: Status of Actions Taken to Improve Auditing and
Financial Reporting of Public Companies (GAO/AFMD-89-38)

Employee Benefits: Improved Plan Reporting and CPA Audits Can
Increase Protection Under ERISA (GAO/AFMD-92-14)

Financial Audit: First Audit of the Library of Congress Discloses
Significant Problems (GAO/AFMD-91-13)

Single Audit Act: Single Audit Quality Has Improved but Some
Implementation Problems Remain (GAO/AFMD-89-72)

Program Evaluation and Methodology Issue Area

GAO Contacts: Kwai-Cheung Chan, 202/512-3092, and Robert L. York,
202/512-5885

Impact of GAO's Work

Congressional committees require evaluative information on federal government programs and issues, and they look to the congressional agencies, including GAO, to provide it. Sound program evaluations are also valuable tools for better management in government. To help improve the quality of evaluative information available to the Congress and to federal agencies, we evaluate various executive agencies' programs, usually at the request of congressional committees. These studies generally fall into one of four areas: (1) determining the intended and unintended effects of an existing program, (2) identifying the potential effects of a proposed program, (3) assessing the quality of information available in a program area for use in congressional decisionmaking, or (4) reviewing executive branch evaluation functions and studies.

In many evaluation reports, we make recommendations to agency officials to (1) correct problems identified in existing programs, (2) increase their awareness of potential effects of proposed programs, (3) improve the quality of information they are collecting and analyzing, and (4) develop more fully their own capability to perform high-quality program evaluation. Thus, while these studies are often used initially by the Congress in its deliberations on specific programs, they are also intended to bring about agency improvements.

In some cases, our program evaluations have provided demonstrations of novel or substantially improved designs and methodologies for measuring the extent of program effectiveness or answering evaluation questions of general interest. Thus, the results of our work have frequently helped others in the evaluation field perform their work.

Key Open Recommendations

Because our program evaluation and methodology studies concern other issue areas, the studies are also discussed in the appropriate issue area sections of this publication. For example, our report on student achievement standards is also discussed in the section entitled "Education and Employment."

Transportation: Traffic Congestion and Air Quality

The Intermodal Surface Transportation Efficiency Act (ISTEA) of 1991 emphasized the linkage between traffic congestion and urban air pollution

and the need to address both problems jointly and through local planning efforts. Our 1992 report identified several obstacles to achieving ISTEA's goals in these areas and recommended that the Department of Transportation report to the Congress midway through the reauthorization cycle (FY 1995) on its activities to overcome these obstacles. We noted in particular the need to perform and widely disseminate evaluations of the effectiveness of transportation demand management measures in reducing both congestion and pollution. (GAO/PEMD-93-2)

Defense: Strategic Nuclear
Triad

On the basis of our series of eight classified reports on the U.S. strategic nuclear triad, we made five specific recommendations to the Department of Defense (DOD) in our June 10, 1993, unclassified testimony to the Senate Governmental Affairs Committee. To date, DOD has not acted favorably or conclusively on four of those recommendations, as follows: (1) that procurement of the B-2 bomber be terminated with the completion of 15 aircraft, rather than 20 as requested by the Air Force; (2) that additional operational testing of the B-1B bomber be done to verify essential improvements in reliability and electronic countermeasures and to remove remaining uncertainties concerning range performance; (3) that the cost-effectiveness of the Air Force's proposed life-service extension of the Minuteman III intercontinental ballistic missile be the subject of additional, rigorous review; and (4) that the Navy should continue flight testing for the D-5 submarine-launched ballistic missile at an annual rate sufficient to maintain an understanding of actual missile performance at a high level of confidence. (GAO/T-PEMD-93-5)

National and Public Health
Issues

Our recent review of the three major sources of information on use of illegal drugs showed that the nation lacked good evidence on which to gauge progress in drug control. Surveys of households and high school students do not cover the populations at highest risk and, for those who are surveyed, self-reports of drug use are questionable. We recommended that the Secretary of Health and Human Services make new efforts to validate the commonly used self-report surveys, that the Congress change current laws to require less frequent collection of data on the general population, and that the Secretary of Health and Human Services expand special studies of high-risk groups to fill the gaps in current surveys. (GAO/PEMD-93-18)

Student Achievement
Standards

After reviewing standards set to interpret students' performance on the National Assessment of Educational Progress (NAEP), we found many technical flaws that made the results of doubtful validity. We recommended that the new standards be withdrawn by the NAEP governing

board, that they not be used in reporting NAEP results, and that the governing board also take a number of specific steps to ensure that it does not adopt technically unsound policies or approve technically flawed results. (GAO/PEMD-93-12)

Vocational Rehabilitation

Our 8-year followup evaluation, using unique computer-matched wage and service data, showed there were only modest long-term outcomes of the state-federal program that provided services to help persons with disabilities become employed and more independent and be integrated into the community. We also found unexplained disparities in the extent of services purchased for clients of different races. We recommended that the Secretary of Education find out why these disparities existed; strengthen evaluation in a number of ways; and take steps to establish the National Commission on Rehabilitation Services, authorized in 1992 to review the program in depth, before the next reauthorization. (GAO/PEMD-93-19)

Related Products With Open Recommendations: Program Evaluation and Methodology

Product Title

Adequacy of the Administration on Aging's Provision of Technical Assistance for Targeting Services Under the Older Americans Act (GAO/T-PEMD-91-3)

Adolescent Drug Use Prevention: Common Features of Promising Community Programs (GAO/PEMD-92-2)

Drug Abuse Research: Federal Funding and Future Needs (GAO/PEMD-92-5)

Drug Use Measurement: Strengths, Limitations, and Recommendations for Improvement (GAO/PEMD-93-18)

Educational Achievement Standards: NAGB's Approach Yields Misleading Interpretations (GAO/PEMD-93-12)

Hazardous Waste Exports: Data Quality and Collection Problems Weaken EPA Enforcement Activities (GAO/PEMD-93-24)

Illegal Aliens: Despite Data Limitations, Current Methods Provide Better Population Estimates (GAO/PEMD-93-25)

Medical Technology: For Some Cardiac Pacemaker Leads, the Public Health Risks Are Still High (GAO/PEMD-92-20)

Medical Technology: Quality Assurance Needs Stronger Management Emphasis and Higher Priority (GAO/PEMD-92-10)

Medical Technology: Quality Assurance Systems and Global Markets (GAO/PEMD-93-15)

Paperwork Reduction: Agency Responses to Recent Court Decisions (GAO/PEMD-93-5)

Pesticides: A Comparative Study of Industrialized Nations' Regulatory Systems (GAO/PEMD-93-17)

Public Health Service: Evaluation Set-Aside Has Not Realized Its Potential to Inform the Congress (GAO/PEMD-93-13)

Student Testing: Current Extent and Expenditures, With Cost Estimates for a National Examination (GAO/PEMD-93-8)

The U.S. Nuclear Triad: GAO's Evaluation of the Strategic Modernization Program (GAO/T-PEMD-93-5)

Traffic Congestion: Activities to Reduce Travel Demand and Air Pollution Are Not Widely Implemented (GAO/PEMD-93-2)

Trauma Care Reimbursement: Poor Understanding of Losses and Coverage for Undocumented Aliens (GAO/PEMD-93-1)

Vocational Rehabilitation: Evidence for Federal Program's Effectiveness Is Mixed (GAO/PEMD-93-19)

Quick Reference—Electronic Edition

Introduction:

This electronic edition contains the details for GAO's open recommendations. This PC-based software lets you use several text search and retrieval options to find either summaries of key open recommendations or the details of open recommendations.

How to Install:

To load the software on your hard drive (7.5MB required):

1. Place program disk 1 in your floppy disk drive.
2. Type the drive designation of your floppy drive and the word "INSTALL".

For example, type "B:INSTALL". Press <Enter>.

3. Follow the instructions on the screen.
4. If you are updating a previous version, the install program will replace the old files with new ones.

Notes: 1. The default subdirectory is \OPENREC.
2. Disk 2 of 2 is the "LAST" disk.

How to Start:

To run the program:

1. Change to the drive and subdirectory where the software has been loaded.

Type "C:". Press <Enter>. Type "CD\OPENREC". Press <Enter>. Type "OR". Press <Enter>.

2. When the Introductory Menu is displayed, highlight an option to learn more about this program. Press <Enter>.

How to Search:

You may search for open recommendations by using report number, title, date, name of a federal entity, congressional committee, name of GAO's point of contact, or any other word or phrase that may appear in the report.

To perform this search, use the numerous options provided on several search menus. Most menus have similar options and require the following general steps:

1. Start at the Introductory Menu, highlight "MAIN". Press <Enter>.
2. At the Main Search Menu, highlight the option to locate the information you want. (See Search Options.) Press <Enter>.
3. At the next menu, indicate how much information you want to extract and where you want the output to go. (Figure 1 shows the menu screen.) Press <Enter>.
4. To perform the search, type a word or phrase. Press <Enter>.

The most recent report is listed first.

5. To review the open recommendations for a specific report shown on the list of titles, highlight the "REPORT NUMBER". Press <Enter>.
6. Use the <PgDn> and arrow keys to scroll through the open recommendations and related information.
7. When using special lists to narrow a search (see Search Options), you perform the search (in step 4 above) by first displaying the special list. Type a word or phrase to get a subset of relevant terms or type "ALL" to get the entire list of terms. Press <Enter>.

Second, highlight your desired term on the list. Press <Enter>.

8. To rerun your last search after selecting another output option, press <Enter> without entering new search words.

Figure 1. Output Menu Options

	Output Destination		
	Screen	Printer	File
1. Report: title, number, and date	:A	:E	:I
2. Report: title, number, date, and hit count	:B	:F	:J
3. Report: title, number, date, and abstract	:C	:G	:K
4. Full information, including recommendations	:D	:H	:L
!HELP - How to use this menu		Note: Full information, including recommendations, is also available from all screen options.	
MAIN - Return to the Main Search Menu			

Notes on Figure 1

1. Menu option 2 takes longer but will give you a count of the reports meeting your search criteria.
2. Menu option 4 directly provides the open recommendations and related information for the most recent report that meets your search criteria. Additional reports will follow in the order they were issued.
3. If chosen, output can be sent to the printer at LPT1.
4. If chosen, output can be sent as ASCII text to the disk file that you designate.

Search Options:

The Main Search Menu includes six options to help you narrow or expedite your search.

Report Summary—Open Search:

Allows you to locate open recommendations using a report number, title, date, job code, or any other word or phrase that may appear in the report.

This includes “!OPTIONS” that provides a way to obtain custom askSam queries and reports (for those who know the askSam programming language).

Issue Area Summary Search:

Allows you to identify the impact of GAO's work and key open recommendations that deserve priority. You may search using key words or a table of contents.

GAO Thesaurus Terms Search:

Allows you to locate open recommendations using terms indexed to major subjects in GAO reports.

Congressional Committees Search:	Allows you to locate open recommendations by the congressional committee or subcommittee having primary interest in or jurisdiction over subjects discussed in GAO reports.
Recommendation Addressees Search:	Allows you to locate open recommendations that were addressed to a specific executive department, agency, or congressional committee.
GAO Issue Area Director Search:	Allows you to locate open recommendations by the GAO executive who is the point of contact for questions about reports and recommendations.

How to Refine Searches:

To refine a search, you can use the following:

1. To look for a phrase in the exact order, enclose your search words in "[]".
2. You can use wildcard characters to substitute for a single character or a group of characters.

"*" can represent a group of characters. For example, use "ACCOUNT*" to get ACCOUNTING, ACCOUNTANT, and ACCOUNTS.

"?" can represent a single character. For example, use "F-1?" to get F-15, F-16, and F-18.
3. Combine search words or phrases with connectors—" {and} "; " {or} "; " {not} "—to narrow or broaden a search.

How to Quit

1. The Escape key (i.e., "Esc") may be used at any time to cancel a search or backup to a previous menu.
2. To quit this program and return to the DOS prompt (at any menu option), highlight "QUIT". Press <Enter>.

How to Get Help:

1. At the Introductory Menu, highlight "How to use this software". Press <Enter>.
2. On any menu screen, highlight "HELP". Press <Enter>.
3. Technical support is available from:

Lawson "Rick" Gist, Jr.
Assistant Director
GAO, Office of Policy

Voice (202) 512-4478
Fax (202) 512-4844

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